

Low Volatility.

ANNUAL REPORT

Visibility.

FOR THE FISCAL YEAR END DECEMBER 31

Diversification.

2012

Liquidity.

Growth.



Special Note Regarding Forward-Looking Statements and Non-IFRS Measures

Alaris' public communications often include written or oral statements which contain forward-looking information. Statements of this type are included in this annual report and may be included in our filings with Canadian securities regulators, or in our other communications. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues", or similar words, or the negative of such words. All such statements are made pursuant to the applicable provisions of, and are intended to be forward-looking statements under applicable Canadian securities legislation. Statements containing forward-looking information include, but are not limited to, comments with respect to our objectives and priorities for the current fiscal year and beyond, our growth strategies or future actions, opportunities available to us for future private company financings, the expected benefits of partnering with Alaris, the attractiveness of the Alaris structure, and the results of or outlook for our operations and those of our Private Company Partners, or for the Canadian and U.S. economies. See the most recent version of the Corporation's AIF filed on SEDAR for specific forward-looking statements relating to these comments.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Assumptions about the performance of the Canadian and U.S. economies in the next 12 months and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners are material factors we considered when setting our strategic priorities and objectives, and our outlook for our business. Key assumptions include, but are not limited to, assumptions that the Canadian and U.S. economies will continue to grow moderately over the next 12 months; that interest rates will remain low for the next 12 to 24 months; that our Private Company Partners will continue to make distributions to Alaris as and when required; that the businesses of our Private Company Partners will continue to grow; that Alaris will experience positive resets to our annual royalties and distributions from our Private Company Partners in the current fiscal year; that tax rates and tax laws will not change significantly in Canada, the U.S. or the Netherlands; that more private companies in North America will require access to alternative sources of capital; and that we will have the ability to raise required equity and/or debt financing on acceptable terms. We have also assumed that capital markets will stabilize and continue to improve and that the Canadian dollar will remain relatively close to the value of par relative to the U.S. dollar. In determining our expectations for economic growth, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a significant risk that our predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Although we believe that the expectations and assumptions reflected in our forward-looking statements are reasonable, we caution readers of this document not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those factors listed under the heading "Risk Factors" in the most recent version of the Corporation's AIF. We caution that this list of risk factors is not exhaustive. Other factors could adversely affect our results. When relying on forward-looking statements to make decisions with respect to Alaris, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Alaris does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law.

Non-IFRS Measures

The terms "EBITDA" and "payout ratio" (the "Non-IFRS Measures") are financial measures used in this Annual Report that are not standard measures under International Financial Reporting Standards ("IFRS"). Alaris' method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Alaris Non-IFRS Measures may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings (loss) determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by Management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine our ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Payout Ratio means dividends paid, divided by cash flow from operating activities before changes in working capital.

These Non-IFRS measures should only be used in conjunction with our annual audited and quarterly reviewed financial statements, complete versions of which are available on SEDAR.

GLOSSARY OF TERMS

In this Annual Report, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

“**Agility**” means Agility Health, LLC.

“**Centric**” means Centric Health Corporation, a CBCA corporation having its common shares listed and trading on the TSX.

“**Distribution**” means each distribution received by Alaris from each of the Private Company Partners as more particularly described under the heading “Description of the Business and Operation- Our Structure” in this AIF.

“**EBITDA**” means net earnings (loss) determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense.

“**End of the Roll**” means End of the Roll Carpet & Vinyl, a corporate partnership established under the laws of the Province of British Columbia.

“**ISO**” means Installation Services Org. Ltd.

“**Killick**” means Killick Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

“**KMH**” means KMH Limited Partnership, a limited partnership established under the laws of the Province of Ontario.

“**Labstat**” means Labstat International LP.

“**LifeMark**” means LifeMark Health Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

“**LMS**” means LMS Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

“**MEDlchair**” means MEDlchair Ltd., a corporation incorporated under the CBCA.

“**MRO**” means maintenance, repair and overhaul as it relates to the business of Killick.

“**Private Company Partner**” and “**Private Company Partners**” means those corporations, partnerships or other entities with which Alaris has directly or indirectly entered into an alternative financing structure including LifeMark, EOTR, LMS, KMH, Solowave, Killick & Quetico.

“**Quetico**” means Quetico LLC, a limited liability corporation formed under the laws of the State of California, USA.

“**SHS**” means SHS Services Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

“**Solowave**” means Solowave Design LP, a limited partnership established under the laws of the Province of Ontario.

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PRESIDENTS MESSAGE

2012 was a year of significant progress towards our company's stated goal of creating a solid dividend stream for investors. We continued to improve in all five facets of the core pillars of our business plan: Reduced volatility, increased visibility, diversification, liquidity and growth. The volatility of our revenue streams remains low as we continue to partner with stable cash flow-generating companies. The distributions we receive from our partners generally represent less than one third of their earnings before EBITDA. More than 90% of our revenues are governed by a volatility-limiting collar or fixed annual increase, providing a look at our estimated earnings 12 months in advance. We now have ten partners, none of which represent over 19% of our total partnership revenue and as such, the individual company business risk within our revenue stream is significantly limited. In 2012, we issued 2,515,000 shares as part of a bought deal financing and saw Alaris added to the TSX/S&P SmallCap Index. Over the course of the year, we deployed more than \$90 million of capital and as a result, we were able to raise our dividend twice in 2012. Revenues grew by 49% for the year while EBITDA grew over 60% and over 30% on a per share basis. The end result for our shareholders was a total return of approximately 40% for the calendar year.

At the heart of this performance is the unique offering that we provide for our Private Company Partners. The entrepreneurs of our Private Company Partners value our ability to offer: (1) Liquidity to them without having to give up control and independence; (2) a lower cost of capital than traditional private equity; (3) reduced participation in their growth; and (4) continuing access to further capital without the need for a forced exit. These attributes allow us to be extremely particular about the companies with which we partner. Without exception, our partners are companies with track records of consistent cash flow, low debt, low capital expenditures and, most importantly, management teams that are committed to growing their companies well into the future.

The best due diligence on our Private Company Partners is really provided by the entrepreneurs themselves. These entrepreneurs retain full control so are therefore fully motivated and committed to the continual growth and success of their companies. In addition, because our returns are in the form of a monthly cash outlay, the entrepreneurs need to be extremely confident in their ability to generate sustainable cash flow streams in order to feel comfortable with the Alaris structure. Furthermore, the fact that we limit the amount of growth in which we participate attracts what we believe are some of the best performing companies in North America. This has been a key driver in achieving returns in excess of the general market through a tumultuous environment.

In 2012, Alaris formed new partnerships with Labstat and Agility Health which resulted in a combined \$53.7 million of contributions. We made follow-on contributions to existing partnerships, providing growth opportunities for KMH and Killick for a combined \$34.2 million. In 2013, we began our year by issuing \$6 million in convertible promissory notes to one of our first partners, LMS, in the amount of \$6 million. 2013 also began with the formation of a new partnership with SHS to which we contributed \$15 million, providing growth capital and liquidity to the expanding company.

THE PATH FORWARD

As Alaris has continued to grow, the number of professionals within the advisory industry that are knowledgeable of Alaris' offering and partnership criteria has continued to expand. We have established a network of advisors across North America that continually encourage clients to reach out to Alaris. While the vast majority of the companies that we see do not fit our partnership requirements, the selection of

quality companies continues to improve. The number of “old economy”, steady cash flow-generating companies large enough to fit the Alaris structure is significantly greater in the US than it is in Canada. As a result, our entry into the US market has broadened our selection of potential partners and we believe further expansion into the US will be a key driver of our continued growth.

With an increased emphasis on estate and succession planning by the baby boomer generation, we anticipate that the Alaris structure will become increasingly attractive for private businesses and their owners. For entrepreneurs who would like to raise capital for growth or personal liquidity, but who are not interested in a sale or in relinquishing control of their company, there are very few options in the marketplace. Alaris is able to fill the hole to address these needs.

Our growth has been fueled not only by the eight dedicated employees of our company but also by the many service providers who help us every day. From the auditors, lawyers, transaction advisors and underwriters, my deepest thanks to all of you for allowing Alaris to succeed over the past nine years.

I would also like to take this opportunity to personally thank Mr. Clay Riddell. Mr. Riddell has announced that he will be retiring from our board at this year’s annual general and special meeting. Just over nine years ago, Mr. Riddell took a chance on a new concept and with someone he barely knew. It is no exaggeration to say that this company would not be here today if it wasn’t for the foresight, business acumen and plain old guts that he had to support this company from the very beginning. We will all miss Clay’s quiet leadership and unwavering support at our quarterly board meetings and we will never forget the incredible good fortune that happened the day that a Canadian business legend agreed to back what was just a good idea.

I look forward to looking back on an even more eventful 2013 at this time next year.

A handwritten signature in black ink, appearing to read 'Steve King', with a stylized flourish at the end.

Steve King

President and CEO

DESCRIPTION OF THE BUSINESS AND OPERATIONS

Our Business

We are a Canadian company that provides alternative financing to a diversified range of profitable, well-managed private businesses in North America. We use an innovative financing structure that allows us to provide capital in a manner that maximizes valuations, is tax effective and allows existing owners of the private companies to retain control of their businesses. Our primary objective is to generate predictable, stable cash flows from our Private Company Partners to allow us to provide an attractive yet stable yield as well as liquidity to our investors.

Our Structure

We provide cash financing to private companies at an agreed upon valuation, in exchange for a pre-determined distribution or royalty (the “**Distribution**”) from such private companies. Our Distribution is received monthly but is determined twelve months in advance in accordance with a mutually agreed upon performance metric which is based upon a “top-line” financial performance measure of a Private Company Partner, such as gross revenues, gross profit, same store sales, same clinic sales and same customer net sales. Each year, our Distribution is adjusted based on the percentage change in the audited performance metric. In keeping with our business objective of generating predictable, stable cash flows, our Distribution is only based on organic growth and/or organic decline of the private company. As such, any growth or decline in the private company from acquisitions or new locations do not get factored into such adjustment for a period of time (typically 12-24 months).

Our Distribution ranks in priority to the Private Company Partner’s common equity. In addition, the Distribution is paid by the Private Company Partner out of earnings before taxes, making the after-tax cost of our financing attractive to our Private Company Partners. Our financing structure is characterized as equity, and as a result, principal payments of our financing are not required.

We do not have any significant influence over any of our Private Company Partners nor do we have any ability to exercise control over the Private Company Partners. In most cases, we do not have any voting rights over the Private Company Partners, and where we do have voting rights, we have only a small percentage of the votes (20% or less). We do not have any significant ability to participate in management decisions and are not involved in the day-to-day operations of the Private Company Partner within the normal course of business. However, we do require Private Company Partners to provide us with monthly (unaudited) financial statements so we can monitor their financial health, as well as annual (audited) financial statements. Although we generally do not have any significant voting rights, we have strong protective covenants in place with our Private Company Partners to protect our Distributions and typically require our prior consent on a number of items outside of the ordinary course of business, such as:

- Any material change in business of the company
- Material acquisitions or divestitures
- Incurring new debt over predetermined levels, or any material change to existing debt facilities
- Entering into non-arm’s length transactions above prescribed levels
- Mergers or corporate reorganizations
- Extraordinary capital expenditures

Our Philosophy

Our structure allows us to monitor our Private Company Partners without needing to be involved in their day-to-day business decisions. We believe business decisions are best made by the people who have built the successful companies that we provide financing to. Through us, such private companies are able to access ongoing capital, remain private and their owners are able to maintain control of their common voting equity.

At the same time, we derive diversified priority-cash returns from businesses that have displayed an ability to be highly profitable in varying economic environments. By supporting management teams that remain fully motivated by their ownership position to run their business profitably, our security holders are able to receive stable monthly dividends based on distributions received by us from our Private Company Partners that are set twelve months in advance.

In addition, our philosophy is to partner with our Private Company Partners for as long as required by the Private Company Partner, and we do not force an exit strategy upon the owners at any time. A financing by Alaris does not prevent the private company from undertaking a future sale of such company if desired, provided that our prior consent is obtained.

The result for our investors is a revenue stream that is intended to have predictability and low volatility due to the "top line" royalty nature of our distributions from our Private Company Partners. Visibility is also created because of the twelve month pre-set payments we receive. Our structure gives us the ability to pay out the vast majority of our revenues in the form of tax effective eligible dividends, thus providing our investors with an attractive yet conservative yield.

Our Growth Strategy

Our strategy is to grow our Distributions by partnering with more private companies that have a track record of high levels of free cash flow and consistent profitability. We typically target companies that are family controlled and that have owners that intend to use the capital we provide for growth, generational transfers or partial liquidity. Our focus is primarily on private companies in Canada and the US.

We intend to partner with additional proven performers that have attractive operating histories to add to our revenue base. We look for private companies that have shown a history of growth and low cyclicalities as well as sustainable free cash flow and strong future opportunities. We do not invest in turn-around situations or companies with a declining asset base. We also look for companies with experienced management teams who have the intention to continue managing the business after partnering with Alaris with no change of ownership following the transaction. This ensures such companies are still run by the capable management and ownership teams that made them such a solid partnership opportunity for Alaris. Companies with low leverage and capital expenditure requirements are also key criterion for us in evaluating new opportunities.

PRIVATE COMPANY PARTNERS

FACT SHEETS

LifeMark

"LifeMark has proven to be an exceptional partner to Alaris since 2004 and will continue to provide Alaris shareholders with consistent, stable returns. The LifeMark partnership is a perfect example of how Alaris is the best source of capital for management and owner's of a growing private business".

Steve King, Chief Executive Officer
Alaris Royalty Corp.

LifeMark is one of Canada's largest private health care providers with over 140 clinics across Canada. Alaris initially partnered with LifeMark in 2005 and has since provided capital to the company 6 additional times. LifeMark provides rehabilitation and physiotherapy services to private users, worker's compensation and safety boards, private insurance companies and Government Agencies. Since its inception in 1979, LifeMark has posted stable results regardless of the economic conditions or government insurance funding levels. In June of 2011, Centric Health Corporation ("Centric") acquired LifeMark in a transaction that resulted in Alaris receiving \$65 million in cash in exchange for a portion of our interest in LifeMark and all of our interest in MEDIchair. LifeMark is now a division of Centric.

TOTAL ALARIS CAPITAL INJECTED: \$9 million (original contribution was \$74 million through 7 tranches, including MEDIchair)	INDUSTRY: Healthcare- Physiotherapy Services
USE OF PROCEEDS Originally for management buyout of US venture capital firm, then for growth capital	ANNUAL DISTRIBUTION TO ALARIS \$7.02 million
DISTRIBUTION COLLAR Fixed +4%	ANNUAL RESET July 1 st each year
WEBSITE www.lifemark.ca	YEAR END December 31

End of the Roll

"End of the Roll is a perfect example of how Alaris' capital can be used for generational transfer without giving up control. Alaris provided capital to End of the Roll founders so that they could slowly exit the company while training their sons to take over the business upon their retirement. This company is exactly what we look for in new partnerships".

Steve King, Chief Executive Officer
Alaris Royalty Corp.

End of the Roll is Canada's largest dedicated flooring retailer. EOR targets "budget minded" customers who prefer to purchase in smaller quantities and coordinate private installation in order to save on the costs of using a full service retailer. The discount renovation market is constantly growing as the trend towards home renovations increases. EOR experienced stable sales during the recession because it does not supply new home builders with flooring.

TOTAL ALARIS CAPITAL INJECTED: \$7.2 million	INDUSTRY: Consumer Discretionary – Discount Flooring
USE OF PROCEEDS Generational transfer	ANNUAL DISTRIBUTION TO ALARIS \$1.17 million
DISTRIBUTION COLLAR N/A	ANNUAL RESET Percentage change in same store sales
WEBSITE www.endoftheroll.com	YEAR END April 30

LMS

“LMS felt the full effects of the global financial crisis we all experienced. It has made it through those events with a strong balance sheet and an even stronger platform for success. LMS has a great future ahead of it as it is the supplier of choice in Western Canadian infrastructure and high rise development projects. We are looking forward to the future with LMS as our partner”.

Steve King, Chief Executive Officer
Alaris Royalty Corp.

LMS is a Western Canadian based concrete reinforcing steel contractor and fabricator. LMS is well established as a leading player in the markets in which it operates across Western Canada. LMS fabricates and installs rebar for construction projects primarily in British Columbia, Alberta, Saskatchewan, and Manitoba. LMS projects include infrastructure, commercial and residential rebar installation and supply. Its customers are typically general contractors or developers.

TOTAL ALARIS CAPITAL INJECTED:	INDUSTRY:
\$51 million	Industrials and Materials – Rebar Fabrication and Installation
USE OF PROCEEDS	ANNUAL DISTRIBUTION TO ALARIS
Estate planning	\$2.81 million
DISTRIBUTION COLLAR	ANNUAL RESET
N/A	Percentage change in gross profit
WEBSITE	YEAR END
www.lmsgroup.ca	September 30

KMH

“Our third partner in the healthcare field, KMH is one of Canada’s leaders in the cardiology diagnostics field. We hope to continue to fund accretive acquisitions for KMH as they grow their footprint throughout North America and even overseas. Medical diagnostics is a growing industry but with very few private management teams with the skills or funding to expand aggressively. We are very pleased to partner with a company with such huge potential in front of it”.

Steve King, Chief Executive Officer
Alaris Royalty Corp.

KMH is a Canadian-based privately held healthcare provider with operations in Canada and the United States. Since inception in 1988, KMH has administered more than 600,000 cardiology, nuclear cardiology and nuclear medicine diagnostic tests and more than 40,000 MRI scans. Based on information provided by KMH and Management’s own review, KMH is the largest provider of nuclear cardiology services in North America and, out of approximately 900, the third largest independent health facility in Canada. The partnership is comprised of 21 clinics: 12 in Canada and 9 in the United States. KMH’s services include nuclear medicine, cardiology and magnetic resonance imaging diagnostic services.

TOTAL ALARIS CAPITAL INJECTED:	INDUSTRY:
\$54.8 million (5 tranches)	Healthcare- Diagnostic Imaging Centers
USE OF PROCEEDS	ANNUAL DISTRIBUTION TO ALARIS
Growth capital	\$8.27 million
DISTRIBUTION COLLAR	ANNUAL RESET
N/A	Percentage change in same clinic sales
WEBSITE	YEAR END
www.kmhlabs.com	November 30

Solowave

“Solowave is a world class manufacturer of a product that households will continue to use for many generations. They have become an exclusive supplier to some of the world’s largest retailers through their unparalleled commitment to quality, innovation and customer service. Alaris is proud to be associated with such an outstanding enterprise.”

Steve King, Chief Executive Officer
Alaris Royalty Corp.

Solowave is a manufacturer of residential, ready-to-assemble wooden play centers. Solowave’s products are sold under the brand names Big Backyard and Cedar Summit Premium Playsets. Based in Ontario, Solowave has operations in the United States and Asia, and sells globally in North America, Europe, Australia and the UAE. Solowave was founded in 2004 and employs approximately 135 employees worldwide, and up to 260 during peak season. Through new product development, quality and innovation, Solowave has established itself as the leading manufacturer of wooden play centers in the United States.

TOTAL ALARIS CAPITAL INJECTED: \$32.50 million	INDUSTRY: Consumer Discretionary- Outdoor Active Play
USE OF PROCEEDS Estate planning	ANNUAL DISTRIBUTION TO ALARIS \$4.66 million
DISTRIBUTION COLLAR +/- 6% per year	ANNUAL RESET Percentage change in same customer net sales
WEBSITE www.solowavedesign.com	YEAR END October 31

Killick

“We are very excited at the prospect of partnering with an impressive management team and for the opportunity to fund a world class company. Killick offers all of the criteria that we look for in a new partner: steady historic earnings from a required service; low levels of term debt and capital expenditures; a large buffer of free cash flow; and opportunities for future growth.”

Steve King, Chief Executive Officer
Alaris Royalty Corp.

Killick Limited Partnership, together with its subsidiaries, (collectively, “**Killick**”), is a privately owned participant in the global aircraft maintenance, repair and overhaul industry. Headquartered in Carrollton, Texas, Killick specializes in the sale, distribution, trade and service of aircraft engines and spare parts. Killick operates in Asia, Europe and the United States, where it employs a combined 130 people. Established in 2006, its operating subsidiaries Prime Turbines, Kansas Aviation and CT Aerospace have been operating since 1984, 1992, and 2002, respectively. The product and service offerings of Killick’s subsidiaries can be segmented into two markets: (i) Maintenance, repair and overhaul (“MRO”) of small aircraft engines and engine accessories, and (ii) the distribution of commercial jet engines, frame parts and engine accessories.

TOTAL ALARIS CAPITAL INJECTED: \$36.25 million (2 tranches)	INDUSTRY: Industrials- Aerospace Products, Maintenance, and Services
USE OF PROCEEDS Replace subordinated debt facility	ANNUAL DISTRIBUTION TO ALARIS \$5.77 million
DISTRIBUTION COLLAR +/- 4% per year	ANNUAL RESET Percentage change in gross revenue
WEBSITE www.killickaerospace.com	YEAR END December 31

Quetico

"The specialized wholesale and inventory management services Quetico provides, as well as the robust customers it provides these services to, have made it a recession resistant business. This has been proven by consistency and profitability Quetico has displayed over the past 18 years, and especially since 2007. These were the major factors that drove our decision to partner with them."

Steve King, Chief Executive Officer
Alaris Royalty Corp.

Founded in 1994, Quetico has created a highly specialized and proprietary wholesale and inventory management niche within the logistics industry. Quetico is based in Chino, California. Quetico provides specialized wholesale, inventory management and third party logistics services of consumer products to big box retailers and brand name manufacturers in North America and abroad. Quetico operates approximately 400,000 square feet of warehouse space and employs approximately 400 people at its peak output. Customers of Quetico are primarily multi-national, financially stable, industry leading companies.

TOTAL ALARIS CAPITAL INJECTED: \$ 26.90 million USD	INDUSTRY: Industrial-Inventory Management
USE OF PROCEEDS Buy-out estate of deceased partner, estate planning for remaining partners	ANNUAL DISTRIBUTION TO ALARIS \$4.68 million USD (hedged)
DISTRIBUTION COLLAR Ceiling of +10% and a floor of -20% per year	ANNUAL RESET Percent change in gross profit
WEBSITE www.queticolc.com	YEAR END December 31

Labstat

"Due to the continuing regulatory requirements being imposed on tobacco manufacturers, Labstat's business model is remarkably stable, while also having excellent growth prospects. Labstat is truly a world leader in its industry and we are very excited to partner with Labstat's management team."

Steve King, Chief Executive Officer
Alaris Royalty Corp.

Labstat is the global leader in regulation-driven analyses of tobacco products. It provides tobacco chemistry and toxicology testing services for tobacco manufacturers, governments, and public and private entities alike. Since 1980, Labstat has carried out over 97 Health Canada projects. Labstat wrote and validated all 45 of the sanctioned tobacco smoke testing methods for Canada: the first country to implement tobacco regulation in 2000. These testing methods are now considered to be the worldwide model for tobacco testing regulation. Labstat is a global business with customers in North America, Europe, South America, New Zealand and Asia.

TOTAL ALARIS CAPITAL INJECTED: \$41.2 million	INDUSTRY: Industrial-Laboratory Testing
USE OF PROCEEDS Funded management's purchase of US private equity ownership	ANNUAL DISTRIBUTION TO ALARIS \$6.18 million
DISTRIBUTION COLLAR +/- 6% per year	ANNUAL RESET Percentage change in gross revenues
WEBSITE www.labstat.com	YEAR END April 30

Agility

"Agility's inpatient and outpatient rehabilitation business gives us exposure to a historically stable cash flow business. The consolidation of this fragmented industry in the U.S. also gives Alaris the opportunity to grow by deploying more capital to a company that's been operating since 1968."

Steve King, Chief Executive Officer
Alaris Royalty Corp.

Agility provides clinical management software and rehabilitation services (physical and occupational therapy and speech pathology) to healthcare providers and employers across the United States. Established in 1968, Agility owns and operates 46 outpatient clinics, and services 27 hospital clinics and 47 long-term care facilities. Agility delivers personalized care through nearly 1,000,000 therapy visits annually. The Agility head office is located in Grand Rapids, Michigan with approximately 25 staff members. Across 15 states, Agility's operations employ over 1,000 individuals.

TOTAL ALARIS CAPITAL INJECTED:

\$12.5 million USD

INDUSTRY:

Healthcare- Physiotherapy Services

USE OF PROCEEDS

Debt refinancing and purchase of a majority share in a physical therapy company

ANNUAL DISTRIBUTION TO ALARIS

\$2.0 million USD (hedged)

DISTRIBUTION COLLAR

N/A

ANNUAL RESET

Percentage change in same clinic sales

WEBSITE

www.agilityhealth.com

YEAR END

December 31

SHS

"SHS represents a rare growth opportunity in what is an old economy, necessary service industry. The management team of SHS have proven themselves to be expert operators within their industry and going forward, have the chance to expand what is already one of Canada's largest providers of residential home services."

Steve King, Chief Executive Officer
Alaris Royalty Corp.

SHS is an entity formed by the principals of ISO to operate, at a national level, the Sears installed home improvement business under the brand name, Sears Home Services. The company offerings include products and services such as HVAC (Heating, Ventilation and Air Conditioning), windows, doors, roofing, home décor, gas fireplaces, carpet, and furnace duct cleaning. SHS is headquartered in Toronto and employs approximately 650 workers nationwide. The services are provided through 82 retail locations and 8 hubs throughout Canada.

TOTAL ALARIS CAPITAL INJECTED:

\$15 million

INDUSTRY:

Consumer Discretionary-Home Improvement Retail

USE OF PROCEEDS

Liquidity and growth capital

ANNUAL DISTRIBUTION TO ALARIS

\$2.5 million

DISTRIBUTION COLLAR

+/- 6% per year

ANNUAL RESET

Percentage change in same program sales

WEBSITE

www.shsservicesmanagement.ca

YEAR END

December 31

CONSOLIDATED FINANCIAL STATEMENTS

Audited Statements for the Years Ended
December 31, 2012 And 2011



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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statement of financial position as at December 31, 2012 and December 31, 2011, the consolidated statement of comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaris Royalty Corp. as at December 31, 2012 and December 31, 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 13, 2013
Calgary, Canada

Alaris Royalty Corp.

Consolidated statement of financial position

	Note	December 31 2012	December 31 2011
Assets			
Cash and cash equivalents		\$3,638,255	\$3,888,465
Prepayments		182,811	119,508
Trade and other receivables		3,417,642	3,443,679
Current Assets		7,238,708	7,451,652
Promissory note receivable	5	1,250,000	-
Equipment	7	59,881	66,743
Intangible assets	5	6,570,201	6,661,138
Preferred LP Units	5	298,226,402	207,408,290
Investment tax credit receivable	6	10,922,393	10,922,393
Deferred income taxes	6	8,673,125	13,967,984
Non-current assets		325,702,002	239,026,548
Total Assets		\$332,940,710	\$246,478,200
Liabilities			
Accounts payable and accrued liabilities		\$1,805,561	\$1,546,705
Dividends payable		2,345,347	1,850,145
Income taxes payable	6	40,585	67,590
Current Liabilities		4,191,493	3,464,440
Loans and borrowings	9	50,000,000	6,500,000
Non-current liabilities		50,000,000	6,500,000
Total Liabilities		\$54,191,493	\$9,964,440
Equity			
Share capital	8	252,016,172	\$200,822,160
Equity reserve		2,930,483	4,626,500
Fair value reserve		2,336,689	2,292,939
Translation reserve		(265,220)	(124,947)
Retained earnings		21,731,093	28,897,108
Total Equity		\$278,749,217	\$236,513,760
Total Liabilities and Equity		\$332,940,710	\$246,478,200
Commitments	12		
Subsequent events	13		

On behalf of the Board:

(signed) "Jack C. Lee" Director

(signed) "Mary Ritchie" Director

Alaris Royalty Corp.

Consolidated statement of comprehensive income

	Note	Years ended Dec 31	
		2012	2011
Revenues			
Royalties and distributions	5	\$32,089,405	\$21,497,960
Interest and other		16,509	68,408
Gain on reduction of partner interests	5	-	23,815,973
Gain on sale of intangible assets	5	-	3,891,560
Total Revenue		32,105,914	49,273,901
Expenses			
Salaries and benefits	11	1,796,174	1,875,508
Corporate and office		971,072	859,727
Legal and accounting fees		1,330,689	556,621
Non-cash stock-based compensation	10,11	1,901,683	1,978,727
Depreciation and amortization		107,633	143,244
Subtotal		6,107,251	5,413,827
Earnings from operations		25,998,663	43,860,074
Finance costs		1,033,392	1,235,348
Unrealized foreign exchange loss		241,794	183,060
Earnings before taxes		24,723,477	42,441,666
Deferred income tax expense	6	5,978,701	7,661,200
Current income tax expense	6	709,173	68,022
Total income tax expense		6,687,874	7,729,222
Earnings		18,035,603	34,712,444
Other comprehensive income			
Net change in fair value of Preferred LP units	5	50,000	1,093,437
Tax impact of change in fair value		(6,250)	(136,679)
Realized gain on reduction of partnership interest	5	-	(24,015,973)
Tax impact of realized gain		-	3,001,997
Foreign currency translation differences		(140,273)	(124,947)
Other comprehensive income for the year, net of income tax		(96,523)	(20,182,165)
Total comprehensive income for the year		\$ 17,939,080	\$ 14,530,279
Earnings per share			
Basic earnings per share		\$0.86	\$2.04
Fully diluted earnings per share		\$0.84	\$1.97
Weighted average shares outstanding			
Basic		20,934,899	17,036,346
Fully Diluted		21,475,993	17,595,740

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2011

	Notes	Share Capital	Warrants	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2011		\$157,402,328	\$405,306	\$3,174,831	\$22,350,157	-	\$12,451,862	\$195,784,484
Total comprehensive income for the year								
Earnings for the period		-	-	-	-	-	34,712,444	34,712,444
Other comprehensive income								
Net change in fair value of available-for-sale financial assets	5	-	-	-	1,093,437	-	-	1,093,437
Tax impact of change in fair value					(136,679)	-	-	(136,679)
Realized gain on reduction of partnership interest					(24,015,973)	-	-	(24,015,973)
Tax impact of realized gain					3,001,997	-	-	3,001,997
Foreign currency translation differences					-	(124,947)	-	(124,947)
Total other comprehensive income					(20,057,218)	(124,947)	-	(20,182,165)
Total comprehensive income for the year					\$20,057,218	\$124,947	\$34,712,444	\$14,530,279
Transactions with shareholders of the Company, recognized directly in equity Contributions by and distributions to shareholders of the Company								
Non-cash stock based compensation	10	\$-	\$-	\$1,826,178	\$-	\$-	\$-	\$1,826,178
Warrants exercised in the period	8	3,988,875	-	-	-	-	-	3,988,875
Fair value of warrants exercised in the period	8	390,794	(390,794)	-	-	-	-	-
Fair value of warrants expired in the period	8	-	(14,512)	14,512	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(18,014,242)	(18,014,242)	(18,014,242)
Options exercised in the period	8	126,696	-	(14,021)	-	-	-	112,675
Payments in lieu of dividends on RSUs	10	-	-	-	-	-	(248,653)	(248,653)
Shares issued after director RSU vesting	8	375,000	-	(375,000)	-	-	-	-
Shares issued in the period	8	40,053,000	-	-	-	-	-	40,053,000
Share issue costs, net of tax	8	(1,667,083)	-	-	-	-	(4,303)	(1,671,386)
Shares issued in lieu of dividends on RSUs	10	152,550	-	-	-	-	-	152,550
Total transactions with Shareholders of the Company		43,419,832	(405,306)	1,451,669	-	-	(18,267,198)	26,198,997
Balance at December 31, 2011		\$200,822,160	\$-	\$4,626,500	\$2,292,939	\$124,947	\$28,897,108	\$236,513,760

Alaris Royalty Corp.

Consolidated statement of changes in equity
For the year ended December 31, 2012

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2012		\$200,822,160	\$4,626,500	\$2,292,939	\$(124,947)	\$28,897,018	\$236,513,760
Total comprehensive income for the year							
Earnings for the period		-	-	-	-	18,035,603	18,035,603
Other comprehensive income							
Net change in fair value of available-for-sale financial assets	5	-	-	50,000	-	-	50,000
Tax impact of change in fair value		-	-	(6,250)	-	-	(6,250)
Foreign currency translation differences		-	-	-	(140,273)	-	(140,273)
Total other comprehensive income		-	-	43,750	(140,273)	-	(96,523)
Total comprehensive income for the year		\$-	\$-	\$43,750	\$(140,273)	\$18,035,603	\$17,939,080
Transactions with shareholders of the Company, recognized directly in equity							
Contributions by and distributions to shareholders of the Company							
Non-cash stock based compensation	10	\$-	\$1,817,433	\$-	\$-	\$-	\$1,817,433
Dividends to shareholders	8	-	-	-	-	(24,959,880)	(24,959,880)
Options exercised in the period	8	673,150	(65,650)	-	-	-	607,500
Payments in lieu of dividends on RSUs	10	-	-	-	-	(241,738)	(241,738)
Shares issued after management RSU vesting	8	3,447,800	(3,447,800)	-	-	-	-
Shares issued in the period	8	49,042,500	-	-	-	-	49,042,500
Share issue costs, net of tax	8	(2,066,038)	-	-	-	-	(2,066,038)
Shares issued in lieu of dividends on RSUs	10	96,600	-	-	-	-	96,600
Total transactions with Shareholders of the Company		51,194,012	(1,696,017)	-	-	(25,201,618)	24,296,377
Balance at December 31, 2012		\$252,016,172	\$2,930,483	\$2,336,689	\$(265,220)	\$21,731,093	\$278,749,217

Alaris Royalty Corp.

Consolidated statement of cash flows

For the years ended December 31

	Note	2012	2011
Cash flows from operating activities			
Earnings from the year		\$18,035,603	\$34,712,444
Adjustments for:			
Finance costs		1,033,392	1,235,348
Deferred income tax expense	6	5,978,701	7,661,200
Depreciation and amortization	7	107,633	143,244
Gain on sale of intangible asset and reduction of partner interests		-	(27,707,533)
(Gain)/Loss on foreign exchange forward contract		3,750	(21,864)
Unrealized foreign exchange loss		241,794	183,060
Non-cash stock-based compensation	10	1,901,683	1,978,727
		<u>27,302,556</u>	<u>18,184,626</u>
Change in:			
-trade and other receivables		26,037	(2,755,165)
-prepayments		(63,303)	223,676
-trade and other payables		231,851	192,303
		<u>27,497,141</u>	<u>15,845,440</u>
Cash generated from operating activities		<u>27,497,141</u>	<u>15,845,440</u>
Finance costs		(1,033,392)	(1,235,348)
Net cash from operating activities		<u>\$26,463,749</u>	<u>\$14,610,092</u>
Cash flows from investing activities			
Acquisition of equipment	7	(9,835)	(12,979)
Acquisition of Preferred LP Units	5	(91,141,585)	(78,948,286)
Proceeds from sale of intangible asset and reduction of partner interests		-	65,000,000
		<u>\$(91,151,420)</u>	<u>\$(13,961,265)</u>
Cash flows from financing activities			
New share capital, net of share issue costs	8	46,286,377	37,830,223
Proceeds from exercise of warrants	8	-	3,988,875
Proceeds from exercise of options	8	607,500	112,675
Repayment of debt	9	(49,000,000)	(66,700,000)
Proceeds from debt	9	92,500,000	44,000,000
Promissory notes issued	5	(1,250,000)	-
Dividends paid	8	(24,464,678)	(17,560,350)
Payments in lieu of dividends on RSUs		(241,738)	(248,653)
		<u>\$64,437,461</u>	<u>\$1,422,770</u>
Net cash used in financing activities		<u>\$64,437,461</u>	<u>\$1,422,770</u>
Net increase/(decrease) in cash and cash equivalents		<u>(250,210)</u>	<u>2,071,597</u>
Cash and cash equivalents, Beginning of year		3,888,465	1,816,868
Cash and cash equivalents, End of year		<u>\$3,638,255</u>	<u>\$3,888,465</u>

1. Reporting entity:

Alaris is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 comprise the Company and its subsidiaries (together referred to as the “**Corporation**”). The Corporation’s Canadian operations are conducted through a partnership. The Corporation’s American operations are conducted through a Delaware Corporation formed on October 21, 2011. 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, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in The Netherlands.

2. Statement of compliance:

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 13, 2013.

(b) Basis of measurement

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

- Available-for-sale financial assets (Preferred LP units and Preferred LLC units) are measured at fair value with changes in fair value recorded in other comprehensive income
- Derivative financial instruments are measured at fair value

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Corporation’s functional currency.

(d) Use of estimates

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

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

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 5 for details in respect of the calculation.

Utilization of tax losses

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

2. Statement of compliance (continued):

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:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-Corporation balances and transactions, and any unrealized income and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue recognition

The Corporation recognizes revenue from the distributions and royalties it receives from the Private Company Partners as they become due under the partnership agreement, limited liability corporation agreement, or royalty agreement with each specific Partner.

(c) Financial instruments

(i) Non-derivative financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, and trade and other receivables.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and banker's acceptances with original maturities of three months or less.

3. Significant accounting policies (continued):

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Corporation's investments in preferred partnership units and limited liability corporations are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in fair value reserve. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Corporation's interest in the Partner companies is through ownership of Preferred units. The units do not constitute control or significant influence over the businesses as the units are predominantly non-voting (in some cases there are minority voting shares for structuring purposes only). The units do not include any residual benefits and the Corporation has no right to participate in management decisions except in certain instances outside the normal course of business (adding new debt, change of control, extraordinary capital expenses and material acquisitions and divestitures) and the Corporation is not involved in the financial or operating policies of the Partner company.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investments in Quetico and Agility, the Corporation's two foreign investments. The Corporation matched 100% of the 2013 scheduled distributions to the Canadian parent and 70% of the expected 2014 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

(d) Share capital

Common shares

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(e) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

3. Significant accounting policies (continued):

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Corporation have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Intangible assets held by the Corporation include intellectual property and are amortized over the 80 year life of the license and royalty agreement. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(h) Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are

3. Significant accounting policies (continued):

expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(i) Finance costs

Finance costs comprise interest expense on borrowings, credit facility renewal fees, losses on disposal of available-for-sale financial assets, and fair value losses on financial assets at fair value through profit or loss. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(k) Earnings per Share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise restricted share units and share options granted to employees.

(l) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) which are recognized in other comprehensive income.

(m) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

3. Significant accounting policies (continued):

(n) New standards and interpretations not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not yet been determined.

4. Financial risk management

Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk and other price risk
- liquidity risk
- market risk
- foreign exchange risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Management has established the Risk Management Committee, which is responsible for developing and monitoring the Corporation's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Corporation's risk management policies are established to identify and analyse the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee undertakes both regular and *ad hoc* reviews of risk management controls and procedures.

4. Financial risk management (continued):

Credit Risk and Other Price Risk

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 21 percent (year ended December 31, 2011 - 43 percent) of the Corporation's revenue in the year ended December 31, 2012 is attributable to one Private Company Partner.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from investments is generally based on a percentage of the investments' gross revenue, same store sales, gross margin or other similar revenue. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements. In the event of non-performance by Partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements provide that payments are receivable monthly no later than the last day of the month.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of \$3,638,255 at December 31, 2012 (December 31, 2011 - \$3,888,465), which represents its maximum credit exposure on these assets.

The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2012 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2012. The items in accounts receivable were current at December 31, 2012.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

4. Financial risk management (continued):

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a \$50.1 million, 364 day revolving credit facility, and has \$50 million balance drawn at December 31, 2012 (\$6.5 million at December 31, 2011) that was reduced to \$4 million subsequent to year end when the Corporation issued new equity. The Corporation has the following financial instruments that mature as follows:

	Total	0-6 months	6 mo-1 yr	1-2 years	3-4 years
Accounts payable and accrued liabilities	\$ 1,805,561	\$ 1,805,561	\$ -	\$ -	\$ -
Dividends payable	2,345,347	2,345,347	-	-	-
Income taxes payable	40,585	40,585	-	-	-
Bank indebtedness	50,000,000	-	-	33,333,333	16,666,667
Total	\$ 54,191,493	\$ 4,191,493	\$ -	\$ 33,333,333	\$ 16,666,667

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All such transactions are carried out within the guidelines set by the Risk Management Committee.

Foreign currency exchange rate risk and commodity price risk

As a result of the Quetico and Agility investments in the United States, the Corporation has some exposure to foreign currency exchange rate risk. The Corporation purchased forward exchange rate contracts matching the expected distributions in US dollars throughout 2013 and also for 70% of the expected distributions in 2014. The Corporation intends to purchase additional contracts each quarter so that two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. The Corporation had no commodity price risk for the year ended December 31, 2012.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2012, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately \$130,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2012.

4. Financial risk management (continued):

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a 364 day revolving credit facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 1.7:1 (1.31:1 at December 31, 2012). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. Additionally, a minimum tangible net worth requirement of \$240.6 million is in place (Actual: \$278.7 million at December 31, 2012). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at December 31, 2012. In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2012.

Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2012 and December 31, 2011 include cash and cash equivalents, trade and other receivables, promissory note receivable, Preferred LP units, accounts payable and accrued liabilities, and loans and borrowings. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their carrying amounts due to their short-terms to maturity. Loans and borrowings bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale investments are estimated using an approach described in note 5.

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 consolidated statement of financial position as at December 31, 2012 and 2011 are measured at fair value on a recurring basis using level 1 or level 2 inputs. The Corporation has no level 3 items and during the years ended December 31, 2012 and 2011, there were no transfers between level 1 or level 2 classified assets and liabilities.

4. Financial risk management (continued):

December 31, 2012	Level 1	Level 2	Total
Cash and cash equivalents	\$ 3,638,255	\$ -	\$ 3,638,255
Foreign exchange derivatives	-	18,113	18,113
Preferred LP units	-	298,226,402	298,226,402
	\$ 3,638,255	\$ 298,244,515	\$ 301,882,770
December 31, 2011			
Cash and cash equivalents	\$ 3,888,465	\$ -	\$ 3,888,465
Foreign exchange derivatives	-	21,864	21,864
Preferred LP units	-	207,408,290	207,408,290
	\$ 3,896,652	\$ 207,430,154	\$ 211,318,619

5. Investments

Preferred LP Units:

December 31, 2012	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	\$ 36,450,000	\$ 499,894	\$ 36,949,894	\$ 65,500,000
LMS	51,000,000	333,280	51,333,280	25,800,000
Solowave	32,500,000	511,253	33,011,253	31,500,000
KMH	54,800,000	504,513	55,304,513	55,376,519
Killick	36,250,000	257,544	36,507,544	37,600,000
Quetico	26,808,540	860,337	27,668,877	27,668,877
Labstat	41,200,000	518,944	41,718,944	41,718,944
Agility Health	12,457,500	604,562	13,062,062	13,062,062
	\$ 291,466,040	\$ 4,090,327	\$ 295,556,367	\$ 298,226,402
December 31, 2011	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	\$ 36,450,000	\$ 499,894	\$ 36,949,894	\$ 65,500,000
LMS	51,000,000	333,280	51,333,280	25,300,000
Solowave	32,500,000	511,253	33,011,253	33,050,000
KMH	27,400,000	427,995	27,827,995	27,900,000
Killick	27,250,000	257,544	27,507,544	27,500,000
Quetico	27,357,300	800,990	28,158,290	28,158,290
	\$ 201,957,300	\$ 2,830,956	\$ 204,788,256	\$ 207,408,290

Assumptions used in fair value calculations:

The Corporation estimated the fair value of the available for sale financial assets (Preferred LP Units) by evaluating a number of different methods:

- A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation. 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.

5. Investments (continued):

(b) A redemption or retraction value 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 was calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount.

From this analysis, management of the Corporation determined the fair value of the Preferred LP Units for each individual Partner. Below is a summary of the fair value adjustments in 2012 and 2011.

	Opening Fair Value	Additions	Disposals	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Fair Value
2012						
LifeMark Health	\$ 65,500,000	\$ -	\$-	\$-	\$ -	\$ 65,500,000
LMS	25,300,000	-	-	-	500,000	25,800,000
Solowave	33,050,000	-	-	-	(1,550,000)	31,500,000
KMH	27,900,000	27,476,518	-	-	-	55,376,519
Killick	27,500,000	9,000,000	-	-	1,100,000	37,600,000
Quetico	28,158,290	59,347	-	(548,760)	-	27,668,877
Labstat	-	41,718,944	-	-	-	41,718,944
Agility Health	-	13,025,368	-	36,694	-	13,062,062
	\$ 207,408,290	\$ 91,280,177	\$-	(512,066)	\$ 50,000	\$ 298,226,402
2011						
LifeMark Health	\$ 120,000,000	\$ 342,558	\$(55,200,000)	-	\$ 357,442	\$ 65,500,000
LMS	24,667,000	-	-	-	633,000	25,300,000
Solowave	32,995,000	16,466	-	-	72,005	33,050,000
KMH	5,245,000	22,582,995	-	-	38,534	27,900,000
Killick	-	27,507,544	-	-	(7,544)	27,500,000
Quetico	-	28,158,290	-	-	-	28,158,290
	\$ 182,907,000	\$ 78,607,853	\$(55,200,000)	-	\$ 1,093,437	\$ 207,408,290

The Corporation holds intangible assets as follows:

Intangible Assets:

	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
December 31, 2012				
End of the Roll	\$ 7,200,000	74,920	\$ (704,719)	\$ 6,570,201
December 31, 2011				
End of the Roll	\$ 7,200,000	74,920	\$ (613,782)	\$ 6,661,138

5. Investments (continued):

The Corporation recorded royalty and distribution revenue as follows:

Royalties and distributions:			
		2012	2011
LifeMark Health	\$	6,885,000	\$ 9,224,776
Solowave		4,960,000	5,000,000
KMH		4,755,954	1,280,449
Killick		4,389,015	2,080,645
Quetico		4,248,300	452,864
Labstat		3,609,878	-
LMS		2,003,046	1,678,949
End of the Roll		1,169,552	1,249,309
Agility Health		68,660	-
MEDlchair		-	530,968
	\$	32,089,405	\$ 21,497,960

I – Preferred LP Units

(a) Investment in LifeMark Health Limited Partnership (“**LifeMark Health**”):

At the beginning of 2011, the Corporation held 900,000 class A preferred partnership units (“**LifeMark A Units**”) and 5,850,000 class B preferred partnership units (“**LifeMark B Units**”) in LifeMark Health (the “**LifeMark Investment**”). On June 9, 2011, the Corporation entered into a plan of arrangement that resulted in a return of capital, the elimination of the Class A and B units, and a reduction of the annual distributions to \$6.75 million for the twelve months following the close of the transaction. Going forward, Alaris holds 6,750,000 Preferred Units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health’s other partnership units, from LifeMark Health of \$6.75 million in the twelve months following close. This represents approximately 50% of the pre-Transaction expected 2011 distribution to Alaris from the LifeMark Group. The post-Transaction annual Distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly. Prior to the return of capital, the fair value of the LifeMark Investment was \$120 million. The prior period gain of \$23.8 million is the difference between the \$55 million in proceeds and 46% of the book value of the original investment.

The LifeMark Group became a subsidiary of Centric Health Corporation (“**Centric**”), who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of Life Mark Health and MEDlchair, pursuant to the Transaction. The Transaction was completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Alaris and Centric are the only limited partners in LifeMark Health.

Centric has the option at any time after June 9, 2013 to repurchase all (but not less than all) of the LifeMark Preferred Units for \$65.5 million. Starting on June 9, 2013 the repurchase price will increase 4% per year.

5. **Investments (continued):**

(b) Investment in Lower Mainland Steel Limited Partnership (“**LMS**”):

The Corporation holds 510,000 preferred partnership units (“**LMS Units**”) in Lower Mainland Steel (the “**LMS Investment**”). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of \$15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of \$36 million.

Pursuant to the LMS partnership agreement (the “**LMS Partnership Agreement**”) dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the “**Preferred Distribution**”) in priority to distributions on LMS’ other partnership units. The base is in two distinct portions and is adjusted at two points (January 1st and April 1st) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS’ Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price.

(c) Investment in KMH Limited Partnership (“**KMH**”):

The Corporation holds 548,000 preferred partnership units (“**KMH Units**”) in KMH Limited Partnership (the “**KMH Investment**”). 50,000 of the KMH Units were acquired in 2010 for an aggregate acquisition cost of \$5 million, 224,000 KMH Units were acquired in 2011 for an aggregate acquisition cost of \$22.4 million, and 274,000 KMH Units were acquired in 2012 for an aggregate acquisition cost of \$27.4 million.

In December 2012, the Corporation loaned \$2.5 million pursuant to a demand note (interest at 8.5% per annum) to temporarily bridge financing on one of the acquisitions.

Pursuant to the KMH partnership agreement (the “**KMH Partnership Agreement**”) dated April 27, 2010, the KMH Units entitle the Corporation to receive an annual preferred distribution (the “**Preferred Distribution**”) in priority to distributions on KMH’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in KMH’s Same Clinic Sales for the previous fiscal year. Distributions on the KMH Units are receivable monthly.

KMH has the option at any time after April 27, 2013 to repurchase all (but not less than all) of the KMH Units at a pre-negotiated premium to the original purchase price.

(d) Investment in Solowave Design, LP (“**Solowave**”):

The Corporation holds 3,250,000 preferred partnership units (“**Solowave Units**”) in Solowave Design Limited Partnership (the “**Solowave Investment**”) acquired on December 16, 2010 for an aggregate acquisition cost of \$32.5 million.

Pursuant to the Solowave partnership agreement (the “**Solowave Partnership Agreement**”) dated December 16, 2010, the Solowave Units entitle the Corporation to receive an annual preferred distribution (the “**Preferred Distribution**”) in priority to distributions on Solowave’s other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Solowave’s Same Customer Net Sales for the previous fiscal year. Distributions on the Solowave Units are receivable monthly.

5. Investments (continued):

Solowave has the option at any time after December 16, 2013 to repurchase all (but not less than all) of the Solowave Units at a pre-negotiated premium to the original purchase price.

(e) Investment in Killick Aerospace, LP (“**Killick**”):

The Corporation holds 3,625,000 preferred partnership units ("**Killick Units**") in Killick Aerospace Limited Partnership (the "**Killick Investment**"). 2,725,000 Killick Units were acquired on July 6, 2011 for an aggregate acquisition cost of \$27.25 million and 900,000 Killick Units were acquired on December 24, 2012 for an aggregate acquisition cost of \$9 million.

Pursuant to the Killick partnership agreement (the "**Killick Partnership Agreement**") dated July 6, 2011, the Killick Units entitle the Corporation to receive an annual preferred distribution (the "**Preferred Distribution**") in priority to distributions on Killick's other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Killick's Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 4%. Distributions on the Killick Units are receivable monthly.

Killick has the option at any time after July 6, 2014 to repurchase all (but not less than all) of the Killick Units at a pre-negotiated premium to the original purchase price.

(f) Investment in Quetico, LLC (“**Quetico**”):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units ("**Quetico Units**") in Quetico, LLC, an American corporation. The units were acquired on November 22, 2011 for an aggregate acquisition cost of \$27.36 million (Canadian funds).

Pursuant to the Quetico LLC agreement (the "**Quetico LLC Agreement**") dated November 22, 2011, the Quetico Units entitle the Corporation to receive an annual preferred distribution (the "**Preferred Distribution**") in priority to distributions on Quetico's other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Quetico's Gross Revenue for the previous fiscal year, subject to a maximum increase of 10% and a maximum decrease of 20%. Distributions on the Quetico Units are receivable monthly and are denominated in US dollars.

Quetico has the option at any time after November 22, 2014 to repurchase all (but not less than all) of the Quetico Units at a pre-negotiated premium to the original purchase price.

(g) Investment in Labstat International, LP (“**Labstat**”):

The Corporation holds 4,120,000 preferred partnership units ("**Labstat Units**") in Labstat International Limited Partnership (the "**Labstat Investment**") acquired on June 9, 2012 for an aggregate acquisition cost of \$41.2 million.

In June 2012, the Corporation loaned \$1.25 million pursuant to a demand note (interest at 15.3% per annum) to temporarily bridge financing of the acquisition of the previous owners interest.

Pursuant to the Labstat partnership agreement (the "**Labstat Partnership Agreement**") dated June 9, 2012, the Labstat Units entitle the Corporation to receive an annual preferred distribution (the "**Preferred Distribution**") in priority to distributions on Labstat's other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Labstat's Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 6%. Distributions on the Labstat Units are receivable monthly.

5. Investments (continued):

Labstat has the option at any time after June 9, 2015 to repurchase all (but not less than all) of the Labstat Units at a pre-negotiated premium to the original purchase price.

(h) Investment in Agility Health, LLC (“**Agility Health**”):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units (“**Agility Units**”) in Agility Health, LLC, an American corporation. The units were acquired on December 12, 2012 for an aggregate acquisition cost of \$12.46 million (Canadian funds).

Pursuant to the Agility Health LLC agreement (the “**Agility LLC Agreement**”) dated December 19, 2012, the Agility Units entitle the Corporation to receive an annual preferred distribution (the “**Preferred Distribution**”) in priority to distributions on Agility’s other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Agility’s Same Clinic Sales for the previous fiscal year, subject to a maximum increase or decrease of 6%. Distributions on the Agility Units are receivable monthly and are denominated in US dollars.

Agility has the option at any time after December 19, 2015 to repurchase all (but not less than all) of the Agility Units at a pre-negotiated premium to the original purchase price.

II – Intangible Assets

(a) Investment in End of the Roll Carpet and Vinyl (“**End of the Roll**”):

On May 1, 2005, the Corporation purchased certain intellectual property (the “**ER IP**”) from End of the Roll for an aggregate purchase price of \$7.2 million pursuant to an acquisition agreement (the “**ER Acquisition Agreement**”) dated May 1, 2005 (the “**End of the Roll Investment**”). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the “**Term**”) of 80 years pursuant to a license agreement (the “**ER License Agreement**”) dated May 1, 2005 in consideration of an annual royalty (the “**Royalty**”). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was \$1.2 million (the “**Initial Royalty**”). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

(b) Investment in MEDiChair Ltd. (“**MEDiChair**”):

On September 12, 2005, the Corporation purchased certain intellectual property (the “**MEDiChair IP**”) from MEDiChair for an aggregate purchase price of \$6.5 million (the “**MEDiChair Investment**”) pursuant to an acquisition agreement (the “**MEDiChair Acquisition Agreement**”) dated September 12, 2005. The MEDiChair IP was subsequently licensed to MEDiChair for a term (the “**Term**”) of 80 years pursuant to a license agreement (the “**MEDiChair License Agreement**”) in 2005 in consideration of an annual royalty (the “**Royalty**”). From September 12, 2005 through June 9, 2011, the Corporation collected \$6.33 million in royalties from MEDiChair.

5. Investments (continued):

On June 9, 2011, the Corporation sold all of the MEDiChair intellectual property for \$10,000,000, a 54% premium to its original cost. Carrying value prior to the sale included amortization of \$475,318 and was \$6.1 million resulting in a \$3.8 million gain in the period.

6. Income tax expense:

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the year ended December 31, 2012 was 25% (year ended December 31, 2011 – 26.5%). The change in effective tax rate is in line with the Canadian government's gradual reduction in the corporate income tax rate.

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	2012	2011
Earnings before income taxes	\$ 24,723,477	\$ 42,441,666
Combined federal and provincial statutory income tax rate	25%	26.5%
Expected income tax provision	\$ 6,180,869	\$ 11,247,041
Non-deductible expense	521,252	(571,013)
LP asset – fair value	-	(2,020,562)
Intangibles	-	(625,000)
Rate changes and other	(14,247)	(301,244)
	\$ 6,687,874	\$ 7,729,222

The income tax effect of the temporary differences that give rise to the Corporation's deferred income tax assets and liabilities are as follows:

	2012	2011
Deferred income tax assets (liabilities):		
Non-capital losses and unclaimed scientific research and development expenses ("SRED") net of partnership deferral	\$ 9,862,623	\$ 15,280,271
Equipment	53,829	94,504
Share issue costs	1,423,652	1,296,091
Intangible assets	(1,653,917)	(1,665,285)
Investment tax credits	(2,730,598)	(2,730,598)
Preferred partnership units	1,686,374	1,693,001
Derivatives	31,162	-
	\$ 8,673,125	\$ 13,967,984

6. Income tax expense (continued):

As at December 31, 2012, the Corporation has unused federal investment tax credits which expire from time to time as follows:

2017	\$	133,652
2018		150,798
2019		1,623,342
2020		1,935,046
2021		1,295,097
2022		3,296,237
2023		1,840,597
2024		647,624
	\$	10,922,393

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of \$39,450,350.

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2011	\$ 18,158,192
Recognized in profit and loss	(7,611,222)
Recognized directly in equity	555,694
Recognized in other comprehensive income	2,865,317
Balance at December 31, 2011	\$ 13,967,981
Recognized in profit and loss	(5,978,691)
Recognized directly in equity	690,085
Recognized in other comprehensive income	(6,250)
Balance at December 31, 2012	\$ 8,673,125

7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$153,931 (December 31, 2011 - \$137,234). During the year ended December 31, 2012, the Corporation acquired assets with a cost of \$9,835 (2011 - \$12,979).

8. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at January 1, 2011 (Voting shares)	15,759,939	\$ 149,402,328
Non-voting shares	666,665	8,000,000
Balance at January 1, 2011 (Voting, non-voting)	16,426,604	\$ 157,402,328
Shares issued in lieu of dividends on RSUs	10,331	152,550
Warrants exercised in the period	531,850	3,988,875
Fair value of warrants exercised in the period	-	390,794
Options exercised in the period	10,375	126,696
Non-voting shares converted to voting	(666,665)	-
Non-voting shares converted to voting	666,665	-
Shares issued by short form prospectus in Dec 2011	2,464,800	40,053,000
Short form prospectus costs in Dec 2011	-	(2,222,777)
Income tax benefit of share issue costs	-	555,694
Issued after director RSU vesting	31,250	375,000
Balance at December 31, 2011 (Voting)	19,475,210	\$ 200,822,160
Issued by short form prospectus in June 2012	2,515,000	49,042,500
Short form prospectus costs in June 2012	-	(2,756,123)
Income tax benefit of share issue costs	-	690,085
Issued after management RSU vesting	290,650	3,447,800
Options exercised in the period	50,625	607,500
Fair value of options exercised in the period	-	65,650
Shares issued in lieu of dividends on RSUs	5,157	96,600
Balance at December 31, 2012 (Voting)	22,336,642	\$ 252,016,172

The Corporation has authorized, issued and outstanding, 22,336,642 voting common shares as at December 31, 2012.

	2012	2011
Weighted average shares outstanding, basic	20,934,869	17,036,346
Effect of outstanding options	335,943	174,994
Effect of outstanding RSUs	205,181	384,400
Weighted average shares outstanding, fully diluted	21,475,993	17,595,740

Dividends

The following dividends were declared and paid by the Corporation:

For the first five months of 2012, the Corporation declared a dividend of \$0.095 per common share, for the next six months of 2012, the Corporation declared a dividend of \$0.10 per common share and in December the Corporation declared a dividend of \$0.105 per common share (\$24,959,880 in aggregate). For the year ended December 31, 2011, dividends of \$18,014,242 were declared.

9. Debt:

The Corporation has a \$50,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. On December 31, 2012, the facility was temporarily extended to \$55,100,000 until January 31, 2013. In June 2012, the Corporation drew on the facility for \$43,000,000 to fund the Labstat transaction. From funds out of the June 2012 public offering, the Corporation then repaid \$46,000,000 of that debt. In July and November 2012, the Corporation drew \$20,000,000 for further contributions to KMH. In December the Corporation drew \$12,500,000 to fund the Agility transaction, \$8,700,000 for a further contribution to KMH and \$8,300,000 for a further contribution to Killick. At December 31, 2012, the Corporation has \$50,000,000 in senior debt outstanding. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at December 31, 2012). The term out date under the credit facility is December 31, 2013. If monies are drawn, and if an extension is not received by December 31, 2013, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2014. There are financial covenants under this facility and at December 31, 2012, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement.

Total Debt Continuity	Amount
Balance at January 1, 2011	\$ 29,200,000
Senior debt repayment, February 2011	\$ (3,000,000)
Senior debt repayment, June 2011	(26,200,000)
Senior debt advance, October 2011	14,500,000
Senior debt advance, November 2011	29,500,000
Senior debt repayment, December 2011	(37,500,000)
Balance at December 31, 2011	\$ 6,500,000
Senior debt repayment, February 2012	\$ (2,000,000)
Senior debt repayment, May 2012	(1,000,000)
Senior debt advance, June 2012	43,000,000
Senior debt repayment, June 2012	(46,000,000)
Senior debt advance, July 2012	2,000,000
Senior debt advance, November 2012	18,000,000
Senior debt advance, December 2012	29,500,000
Balance at December 31, 2012	\$ 50,000,000

10. 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 RSUs and 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 720,886 and issued 205,181 RSUs to management and Directors as of December 31, 2012. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (111,431) do not vest until the end of the three-year period (September 2015) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period. Payments in lieu of dividends on the unvested RSUs are made monthly in cash in accordance with the Corporation's dividend policy.

10. Share-based payments (continued):

For the year ended December 31, 2012, the Corporation incurred stock-based compensation expenses of \$1,901,683 (2011 - \$1,978,727) which includes: \$663,185 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2011 - \$1,247,452); \$84,250 (non-cash expense) for shares issued in the year in lieu of dividends under the RSU Plan (2011 - \$152,550); and \$1,154,248 (non-cash expense) for the amortization of the fair value of outstanding stock options (2011 - \$578,725). The Corporation has reserved 1,507,715 and issued 1,406,161 options that vest over a four-year period and expire in five years.

The options outstanding at December 31, 2012, have an exercise price in the range of \$7.27 to \$23.53 and a weighted average contractual life of 3.5 years (2011 – 3.7 years).

	Weighted Avg Exercise Price 2012	Number of Options 2012	Weighted Avg Exercise Price 2011	Number of Options 2011
Outstanding at January 1	\$12.96	929,775	\$11.01	610,150
Exercised during the year	12.00	(50,625)	10.86	(10,375)
Granted during the year	23.53	527,011	16.32	330,000
Outstanding at December 31	16.92	1,406,161	12.96	929,775
Exercisable at December 31	\$11.88	461,775	\$11.06	279,956

The following table summarizes the options outstanding and exercisable as at December 31, 2012:

Exercise price	Number outstanding	Weighted average remaining life (years)	Number exercisable
\$7.27	97,500	1.93	73,125
\$11.56	291,000	2.98	145,500
\$12.00	160,650	0.83	160,650
\$15.48	130,000	3.59	32,500
\$16.87	200,000	3.95	50,000
\$23.53	527,011	4.68	-
	1,406,161	3.49	461,775

The fair value of the options was calculated using a Black-Scholes model with the following assumptions:

	Oct 2008	Dec 2009	Dec 2010	Aug 2011	Dec 2011	Sept 2012
Dividend yield	12.00%	10.50%	8.72%	6.68%	6.79%	5.12%
Expected volatility	38.00%	56.0%	51.79%	46.49%	45.08%	37.73%
Risk free rate of return	2.66%	2.21%	2.23%	1.61%	1.16%	1.27 %
Expected life	4.325	4.325	4.325	4.325	4.325	4.325
Weighted average value	\$ 1.2840	\$ 1.5639	\$ 2.5887	\$ 3.5070	\$ 3.5666	\$ 4.7096

11. Related parties:

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary, Alaris USA Inc., a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

	2012	2011
Base salaries and benefits	\$678,414	\$638,610
Bonus	660,000	900,000
Non cash stock-based compensation	1,112,955	1,205,925
	\$2,451,369	\$2,744,535

12. Commitments:

In 2009, the Corporation signed a seven-year lease at a new location that commenced December 1, 2009, ending November 30, 2016. The Corporation's annual commitment under this lease is as follows:

2013	\$	166,354
2014		166,354
2015		166,354
2016		152,491
	\$	651,554

13. Subsequent events:

Subsequent to December 31, 2012, the Corporation entered into a partnership agreement with SHS Services Management effective March 2, 2013. Pursuant to the Partnership, Alaris contributed \$15,000,000 to SHS in exchange for an annual preferred distribution of \$2,500,000.

Subsequent to December 31, 2012, the Corporation issued \$6 million in convertible promissory notes to LMS. The first note (\$3 million) can be repaid up until December 30, 2013 and thereafter can be converted into additional preferred LMS Units at Alaris' option. The second note (\$3 million) automatically converts to preferred LMS Units on December 31, 2013. For the purposes of calculating the distributions on the new LMS Units in 2014, the base rate on the promissory notes is set at 16% and will be adjusted by the change in gross profit along with the distributions on the original LMS Units.

Subsequent to December 31, 2012, the Corporation issued 2,461,000 shares by way of short form prospectus; 194,650 shares as a result of the exercise of options; and 31,250 shares that vested to Directors under the RSU Plan. At March 13, 2013, the Corporation had 25,023,542 common shares outstanding.

Subsequent to December 31, 2012, the Corporation repaid \$46 million of bank indebtedness with proceeds from the aforementioned offering and then drew \$10 million on the facility to fund the contribution to SHS.

ALARIS MANAGEMENT
DISCUSSION & ANALYSIS

MANAGEMENT DISCUSSION AND ANALYSIS

This management's discussion and analysis ("MD&A") should be read in conjunction with the audited financial statements for the years ended December 31, 2012 and December 31, 2011 for Alaris Royalty Corp., ("Alaris" or the "Corporation"). The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are recorded in Canadian dollars. (See "Transition to International Reporting Standards" under "New Accounting Pronouncements" in this Management's Discussion and analysis). Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

This MD&A contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Corporation's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. See "Forward Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risks and Uncertainty". This MD&A also refers to certain non-IFRS measures, including EBITDA and Normalized EBITDA, to assist in assessing the Corporation's financial performance. The terms EBITDA and Normalized EBITDA (the "Non-IFRS Measures") are financial measures used in this MD&A that are not standard measures under IFRS. The Corporation's method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-IFRS measures may not be comparable to similar measures presented by other issuers. See "Results of Operations" for a reconciliation of EBITDA and Normalized EBITDA to earnings.

EBITDA refers to earnings determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine the Corporation's ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature. Items include expenses incurred in connection with the reduction of interests in two of the private businesses with which the Corporation has transacted.

The Corporation has provided a reconciliation of net income to EBITDA and Normalized EBITDA in this MD&A. These Non-IFRS measures should only be used in conjunction with the Corporation's annual audited statements, excerpts of which are available below, while complete versions are available on SEDAR at www.sedar.com.

OVERVIEW

The Corporation earns its revenues by providing capital to private businesses (individually, a “**Private Company Partner**” and collectively the “**Partners**”). The Corporation’s revenue consists of royalties and preferred distributions (“**Distributions**”) received in regular monthly payments that are contractually agreed to between the Corporation and each Private Company Partner. These payments are set for twelve months at a time and adjusted annually based on the audited performance of each Private Company Partner’s gross revenue, gross margin, same store sales, or other similar “top-line” performance measure. The Corporation has limited general and administrative expenses with only eight employees.

RESULTS OF OPERATIONS

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

2012 was another significant year as the Corporation continued to focus on its five main investing pillars aimed at providing a more secure dividend stream to shareholders:

Diversification:

- The addition of two new Partners, Labstat International Limited Partnership (“**Labstat**”) in June 2012 and Agility Health LLC (“**Agility**”) in December 2012.

Growth:

- The addition of two new Partners, Labstat and Agility
- Follow on investments into KMH Limited Partnership (“**KMH**”) in November and December 2012 and Killick Aerospace Limited Partnership (“**Killick**”) in December 2012
- Increased dividend twice for a total increase of 10.5% and provided an annual return to shareholders of 39%

Reducing Volatility:

- Negotiated collars on the maximum increase or decrease of the annual distributions from Labstat and Agility.
- Organic growth in annual distributions from Partners of 2.2%

Visibility:

- Revenues from the Corporation’s nine partners for 2013 are already determined and the Corporation has predictable and low General and Administrative expenses.

Liquidity:

- The Corporation’s float increased 18% and daily trading volume continues to grow

Revenues for the year ended December 31, 2012 reflect distributions from transactions involving each of Alaris’ Partners for that year. In 2012, revenues from the Partners totaled \$32.1 million compared to \$21.5 million in the year ended December 31, 2011. The increase of 49% compared to the prior year is a result of year over year performance metric adjustments from each of the current Partners and the addition of new Partners. Revenues from LifeMark were \$6.89 million compared to \$9.22 million in the prior year, a decrease of 25.4%. Alaris sold approximately 50% of its interest in LifeMark on June 9, 2011, with the remaining distribution increasing 4% per year starting July 1, 2012. LifeMark’s physiotherapy business is not economy dependent as people will continue to get hurt and require rehabilitative services. Revenues from LMS Reinforcing Steel Group (“**LMS**”) were \$2.00 million compared to \$1.68 million in the prior year, an increase of 19.3% due to the year over year performance adjustment based on the change in gross profit for LMS effective Jan 1, 2012. Revenues from End of the Roll Carpet & Vinyl (“**End of the Roll**”) were \$1.17 million in the year compared to \$1.25 million in the prior year, a decrease of 6.4% as a result of the same store sales adjustment to the annual royalty effective May 1, 2012. Revenues from KMH were \$4.76 million compared to \$1.28 million for the prior year. The 271.4% increase is due to follow-on contributions late in 2011 and two further contributions in 2012. Revenues from Solowave Design Limited

Partnership (“Solowave”) commenced in December 2010 and were \$4.96 in the year compared to \$5.0 million in the prior year, based on a 0.8% decrease in same customer net sales performance for Solowave’s 2011 fiscal year. Revenues from Killick commenced in July 2011 and were \$4.39 million in the year compared to \$2.08 million in the prior year. The distributions increased 3.1% based on the increase in gross revenues for Killick’s 2011 fiscal year effective July 1, 2012 and were received for a full year in 2012 compared to a half year in 2011. Revenues from Quetico LLC (“Quetico”) commenced in November 2011 and were \$4.25 million in the year compared to \$0.45 million in the prior year. Revenues from Labstat commenced in June 2012 and were \$3.61 million for the year. Revenues from Agility commenced in December 2012 and were \$0.07 million in the year. Revenues from MEDIchair Ltd. (“MEDIchair”) were nil in the year compared to \$0.53 for the prior year as the MEDIchair royalty was sold on June 9, 2011. See “Private Company Partner Update” for more information on the individual Partners’ performance.

Finance costs of \$1,033,392 in the year were lower compared to \$1,235,348 in the prior year because of lower senior debt levels and a 50 basis point decrease in the interest rate on the credit facility compared to 2011.

In the year ending December 31, 2012, the Corporation recorded non-cash stock based compensation expenses totaling \$1,901,683 (2011 - \$1,978,727) that included: \$663,185 to amortize the fair value of the RSU Plan (2011 - \$1,247,452); \$1,154,248 to recognize the fair value of outstanding stock options (2011 - \$578,725); and \$84,250 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan (2011 - \$152,550). Also in the year, the Corporation made cash payments based on current dividend rates of \$241,738 to employees and directors in lieu of dividends under the RSU Plan (2011 - \$248,653).

Salaries and benefits were \$1,796,174 in the year compared to \$1,875,508 in the prior year period. The 4.2% decrease is due to a \$175,000 reduction in the bonus pool in 2012 partially offset by modest increases in base salaries and the hiring of the Corporation’s eighth employee in September (legal administrative position).

Corporate and office expenses were \$971,072 compared to \$859,727 in the prior year and include office rent, travel and corporate administrative expenses. The 12.9% increase was due to the higher travel and associated costs in 2012 with increased deal flow. Additionally, TSX fees and other regulatory administrative expenses increased along with the market capitalization of the Corporation compared to the prior year.

Legal and accounting expenses were \$1,330,689 for the year compared to \$556,621 for the prior year. The 139.1% (\$774K) increase was due \$320K in expenses on a deal that didn’t close as well as additional legal costs associated with establishing and maintaining partnerships in the United States.

Amortization and depreciation include the amortization of the intangible assets and the depreciation of capital assets. The Corporation amortizes its intangible assets over the term of the licensing agreement and depreciates capital assets over the estimated useful lives. The Corporation does not amortize preferred interests in limited partnerships. Since these transactions are treated as financial instruments, they are assessed for objective evidence of impairment at each balance sheet date. The Corporation recorded amortization and depreciation of \$107,633 (2011 - \$143,244) in the year ended December 31, 2012. The amortization expense decreased with the sale of the MEDIchair royalty in June 2011.

The Corporation recorded earnings of \$18.04 million, and EBITDA and Normalized EBITDA of \$25.86 million for the year ended December 31, 2012 compared to earnings of \$34.71 million, EBITDA of \$43.82 million and Normalized EBITDA of \$16.11 million for the year ended December 31, 2011. The decrease in net income and EBITDA can be attributed to the significant gains on the reduction of interest in LifeMark

and the sale of the MEDiChair intangible assets in 2011. Normalized EBITDA increased in 2012 due to the addition of new Partners in Quetico (Dec 2011), Labstat (June 2012), Agility (Dec 2012) and follow on investments with KMH (Nov 2012 and Dec 2012) and Killick (Dec 2012).

Reconciliation of Net Income to EBITDA (thousands)	Year ending December 31, 2012	Year ending December 31, 2011
Earnings	\$18,036	\$34,712
Adjustments to Net Income:		
Amortization and depreciation	108	143
Interest	1,033	1,235
Income tax expense	6,688	7,729
EBITDA	\$25,865	\$43,819
Normalizing Adjustments		
Gain on sale of intangible assets	-	(3,892)
Gain on reduction of LifeMark interest	-	(23,816)
Normalized EBITDA	\$25,865	\$16,111

For the year ending December 31, 2012, dividends were declared for January through May at \$0.095 per common share; June through November at \$0.10 per common share; and for December it was increased to \$0.105 per common share totalling \$24,959,880 for the year. In the prior year, dividends were declared totalling \$18,014,242 for the prior year.

Three Months Ended December 31, 2012 Compared to Three Months Ended December 31, 2011

Revenues for the three months ended December 31, 2012 reflect Distributions from transactions involving each of Alaris' nine Partners for that period. In this period, revenues from the Partners totaled \$9.04 million compared to \$5.81 million in the three months ended December 31, 2011. The increase of 55% compared to the prior period is a result of new Partners added in the last twelve months as well as year over year performance metric adjustments from each of the Partners. Revenues from LifeMark were \$1.76 million compared to \$1.69 million in the same prior year period, an increase of 4.0% effective July 1, 2012 as per the Partnership agreement. Revenues from LMS were \$0.51 million in the period compared to \$0.42 million in the prior year period, an increase of 20.2% due to the year over year performance adjustment based on the change in gross profit for LMS effective January 1, 2012. Revenues from End of the Roll were unchanged from the prior year period at \$0.28 million. Revenues from KMH were \$1.52 million in the period compared to \$0.62 million in the same prior year period. The 145.5% increase due to a further investment into KMH of \$27.4 million in the last quarter of 2012. Revenues from Solowave were \$1.24 million compared to \$1.25 million in the same prior year period due to a 0.8% decrease in same customer net sales. Revenues from Killick were \$1.13 million in the period compared to \$1.08 million in the same prior year period due to a 3.1% increase in gross revenues that increased the distributions effective July 1, 2012 and a \$9 million further investment into Killick in December 2012. Revenues from Quetico commenced in November 2011 and were \$1.06 million in the period compared to \$0.45 million for a partial period in 2011. Revenues from Labstat commenced in June 2012 and were \$1.59 million in the period. Revenues from Agility commenced in December 2012 and were \$0.07 million in the period. See "Private Company Partner Update" for more information on the individual Partners' performance.

Interest expense of \$335,172 in the period was significantly higher (260%) compared to \$75,196 in the prior year period because the Corporation drew the entire remaining amount on its senior debt facility to fund follow-on investments into KMH (\$27.4 million), Killick (\$9 million) and a new Partnership with Agility (\$12.5 million) during the fourth quarter compared to only \$6.5 million outstanding in senior debt at the end of 2011.

In the three months ending December 31, 2012, the Corporation recorded non-cash stock based compensation expenses totaling \$753,620 (2011 - \$387,377) that included: \$298,919 to amortize the fair value of the Corporation's restricted share unit plan (the "RSU Plan") (2011 - \$159,035); \$454,701 to recognize the fair value of outstanding stock options (2011 - \$186,942); and nil to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan (2011 - \$41,400). Also in the quarter, the Corporation made cash payments based on current dividend rates of \$62,786 to employees and directors in lieu of dividends under the RSU Plan (2011 - \$65,754). Salaries and benefits were \$271,376 in the quarter, up 27% compared to the prior year period due to modest increases in base salaries effective August 1st and a new legal administrative position effective September 1, 2012.

Corporate and office expenses were \$202,506 compared to \$267,396 in the prior year and include office rent, travel and corporate administrative expenses. The 24% decrease was due mostly to a higher than normal run rate of expenses toward the end of 2011 as the international structure was finalized.

Legal and accounting expenses were \$282,244 for the three months ended December 31, 2012 compared to \$178,945 for the prior year period. The 58% increase is due to increased accounting, legal and tax fees related to the international structure.

Depreciation and amortization was comparable to the prior year period.

The Corporation recorded earnings of \$4.93 million and EBITDA of \$7.86 million for the three months ended December 31, 2012 compared to earnings of \$6.37 million and EBITDA of \$4.59 million for the three months ended December 31, 2011. The increase in EBITDA can be attributed to the new transactions with Quetico, Labstat and Agility as well as the follow-on investments with KMH and Killick that would have no revenues associated with them in the same period in 2011. Earnings were higher in 2011 due to a recovery of deferred income tax expense.

Reconciliation of Net Income to EBITDA (thousands)	3 months ending December 31, 2012	3 months ending December 31, 2011
Earnings	\$4,931	\$6,369
Adjustments to Net Income:		
Amortization and depreciation	27	27
Interest	335	357
Income tax expense	2,571	(2,168)
EBITDA	\$7,864	\$4,585

For the three months ending December 31, 2012, dividends were declared in October and November at \$0.10 per common share (voting and non-voting) and in December were increased to \$0.105 per common share totalling \$6,812,676 for the quarter. In the prior year period, dividends were declared totalling \$5,074,216 for the quarter.

A portion of the cash held at December 31, 2012 of \$3.64 million was used to satisfy the dividend declared in December 2012 (payable January 15, 2013).

The Corporation has a \$50 million, interest-only senior debt facility with a two-member Canadian bank syndicate, which was drawn to \$50 million at December 31, 2012. Interest is paid monthly at the lenders' prime rate plus three percent per annum (6.0% at December 31, 2012). During the current quarter, the Corporation drew \$47.5 million for the KMH, Killick and Agility transactions. Subsequent to December 31, 2012, the Corporation repaid \$44 million out of the proceeds of a public offering, and then drew down \$10 million for a contribution to a new Partner.

The Corporation has recorded an \$8.7 million deferred tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections.

PRIVATE COMPANY PARTNER UPDATE

The Corporation's interest in each of the Partners consist of a preferred partnership interest or ownership of intellectual property with a return based on a formula linked to a top-line metric (sales or gross profit) rather than a residual equity interest in the net earnings of such entities. The Corporation's role with each of the Partners is passive in all cases. The Corporation has no involvement in the day to day business of each Private Company Partner and has no rights to participate in management decisions. The Corporation does not have any significant influence over any of the Partners nor does it have the ability to exercise control over such Partners. Instead, the Corporation has certain restrictive covenants in place designed to protect the ongoing payment of the annual royalties and distributions payable to Alaris. In addition, the Partners are required to obtain the consent of Alaris in certain circumstances prior to entering into a material transaction. Such transactions generally include acquisitions & divestitures, major capital expenditures and incurring additional indebtedness.

LifeMark – Physiotherapy and rehabilitation services have not historically seen any significant year over year swings as people will continue to get injured and require the services that LifeMark provides. However, based on the terms of the amended Partnership agreement dated June 9, 2011, the LifeMark distribution will now increase by 4% each period ending June 30. The distributions are now supported by LifeMark's parent company, Centric Health Corporation (“**Centric**”), a Canadian public company, who will report to Alaris quarterly going forward. For the nine months ended September 30, 2012, Centric's revenues are 160% and EBITDA is 120% ahead of the prior year period results. The significant year over year improvement comes from the impact of the LifeMark acquisition. Centric has the option to repurchase the remaining partnership units owned by the Corporation starting in June 2013 at a fixed price of \$65.5 million. If the units are not repurchased, both the \$65.5 million and the annual distributions (scheduled at \$7.02 million for 2013) will increase by 4% effective July 1, 2013.

LMS – Volumes increased significantly in LMS' September 2012 fiscal year and are expected to continue to improve based on work on hand and recent project bidding activity. Based on audited financial statements, for the year ended September 30, 2012, total gross profit dollars were approximately 19% ahead of the prior year due to increased volume and consistent margins. Total gross profit is the top-line performance metric on which the annual distributions to the Corporation are reset. A portion of the annual distributions from LMS will reset on January 1, 2013 and the remainder on April 1, 2013 based on the September 2012 results. LMS management expects continued improvement into its 2013 fiscal year. Including the resets in 2013, distributions are currently scheduled at \$2.82 million for 2013.

End of the Roll – End of the Roll completed its seventh fiscal year as an Alaris partner on April 30, 2012. Same store sales results are the top-line performance metric on which the annual payments to the Corporation are reset. Same store sales for End of the Roll decreased 0.8% for the year ended April 30, 2012 as the renovation industry was relatively stable year over year. Based on unaudited financial statements for the eight months ended December 31, 2012, revenues and EBITDA are consistent with prior year results. Distributions are currently scheduled at \$1.17 million for 2013.

KMH – In 2012, the Corporation announced the purchase of additional preferred partnership units in KMH Limited Partnership for an aggregate acquisition cost of \$27.4 million, on top of the \$5 million in preferred partnership interests purchased in 2010, and the \$22.4 million in preferred partnership interests in 2011. KMH is a private healthcare company operating twelve diagnostic clinics (nuclear medicine, cardiology and MRI) in Ontario and now nine clinics in the United States. Based on unaudited internal financial statements provided by KMH's management for the year ended November 30, 2012, total revenues are more than 5% ahead of prior year results and EBITDA is significantly ahead of prior year results. Same clinic sales is the top-line performance metric on which the annual distributions to the Corporation are reset but due to a number of transactions with the Corporation, it was agreed to push the

next reset date back until January 1, 2014. Distributions on the KMH preferred units are currently scheduled at \$8.27 million for 2013 after the recent purchase of additional units.

Solowave - In December 2010, the Corporation purchased preferred partnership units in Solowave Design Limited Partnership for an aggregate acquisition cost of \$32.5 million. Solowave is a Canadian-based privately held designer and manufacturer of residential, ready-to-assemble wooden play centers. Solowave sells its products under the brands "Big Backyard" and "Cedar Summit Play Systems". Solowave's year end is October 31st and based on audited financial statements for the year ended October 31, 2012, revenues were 6% lower and EBITDA was 12% lower than prior year results. Annual growth in Solowave's distributions to Alaris is capped at 6%. There is also a maximum decline in the annual distributions of 6%. The annual distributions go up and down with Same Customer Net Sales and Solowave's same customer net sales declined just over the maximum 6% for the 2012 period. The decline in revenue and EBITDA are a result of softness in the American market that was partially offset by growth in Canadian and international business. Distributions on the Solowave preferred units are currently scheduled at \$4.66 million for 2013.

Killick - In December 2012, the Corporation announced the purchase of \$9 million of additional preferred partnership units in Killick Aerospace Partnership in addition to the initial acquisition of units for \$22.4 million. Killick is a Canadian-owned, Dallas-based privately held participant in the global aircraft maintenance, repair and overhaul industry. Killick's year end is December 31st and based on unaudited internal financial statements for the year ended December 31, 2012, revenues and EBITDA are well ahead of the prior year results as Killick has continued to find new opportunities, particularly in the parts sales business. Annual growth in Killick's distributions to Alaris is capped at 4% and is based on the change in gross revenues. There is also a maximum decline in the annual distributions of 4%. The distributions increased by 3.1% effective July 1, 2012 based on the audited December 2011 results. The distributions are currently scheduled at \$5.77 million and will reset again on July 1, 2013 based on the audited results for December 2012.

Quetico - In November 2011, the Corporation announced the purchase of preferred LLC units in Quetico, LLC for an aggregate acquisition cost of \$26.9 million USD. Quetico is a provider of wholesale, inventory management and third party logistic services. Quetico's year end is December 31st and based on unaudited internal financial statements for the year ended December 31, 2012, revenues and EBITDA are significantly ahead of the prior year results. Annual growth in Quetico's distributions to Alaris is capped at 10% and is based on the change in gross revenues. There is also a maximum decline in the annual distributions of 20%. Gross revenues were well in excess of the 10% maximum so distributions from Quetico will increase 10% effective January 1, 2013 and are scheduled at approximately \$4.7 million in Canadian dollars for 2013. The Corporation has purchased monthly forward contracts locking in the foreign exchange rate for all of 2013 and 70% of 2014.

Labstat - In June 2012, the Corporation announced the purchase of partnership units in Labstat International, Limited Partnership for an aggregate acquisition cost of \$41.2 million. Labstat is the global leader in regulation-driven analysis of tobacco products. Labstat's year end is December 31st and based on unaudited internal financial statements for the year ended December 31, 2012, revenues and EBITDA are consistent with prior year results. Annual growth in Labstat's distributions to Alaris is capped at 6% and is based on the change in gross revenues. There is also a maximum decline in the annual distributions of 6%. The first reset on distributions will not occur until January 1, 2014 based on the audited December 2013 results. Distributions are currently scheduled at \$6.18 million for 2013.

Agility - In December 2012, the Corporation announced the purchase of partnership units in Agility Health, LLC for an aggregate acquisition cost of \$12.5 million USD. Agility is a private health care company specializing in rehabilitation services across the United States. Agility's year end is December 31st and the distributions to the Corporation will not change until the completion of Agility's 2013 fiscal year.

Annual growth in Agility's distributions to Alaris is capped at 6% and is based on the change in same clinic sales. There is also a maximum decline in the annual distributions of 6%. Distributions are currently scheduled at \$1.99 million in Canadian dollars for 2013. The Corporation has purchased monthly forward contracts locking in the foreign exchange rate for all of 2013 and 70% of 2014.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has a \$50.1 million senior credit facility which increased temporarily to \$55.1 million from January 1, 2013 to January 31, 2013 (\$50 million drawn at December 31, 2012) provided by two Canadian chartered banks. The senior facility was renewed on December 31, 2012 at an interest rate of Canadian prime interest rate plus 3%. The senior credit facility is an interest-only, 364-day revolving loan that is due December 31, 2013. The facility carries a three-year term out option in the event the loan is not renewed. Therefore at December 31, 2012, no amount is recorded as a current liability as the first potential principal repayment would be in January 2014 and then only if the facility is not renewed in December 2012. At December 31, 2012, the Corporation met all of its covenants as required by the senior credit facility. Those covenants include a maximum debt to EBITDA of 1.7:1 (1.31:1 at December 31, 2012); minimum tangible net worth of \$240.6 million (\$278.7 million at December 31, 2012); and a minimum fixed charge coverage ratio of 1:1 (1.06:1 at December 31, 2012). Subsequent to December 31, 2012, the Corporation repaid \$46 million of the outstanding senior credit facility using proceeds from a common share offering and then borrowed \$10 million for a contribution to a new Partner.

The Corporation had 22.337 million voting common shares outstanding at December 31, 2012. The Corporation had working capital of approximately \$3.05 million at December 31, 2012. Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

WORKING CAPITAL

The Company's working capital (defined as current assets less current liabilities) at December 31, 2012 and 2011 is set forth in the tables below.

	2012	2011
Cash	3,638,255	3,888,465
Trade and other receivables	3,417,642	3,443,679
Prepayments	182,811	119,508
Total Current Assets	\$7,238,708	\$7,451,652
Accounts payable & accrued liabilities	1,805,561	1,546,705
Dividends payable	2,345,347	1,850,145
Income taxes payable	40,585	67,590
Total Current Liabilities	\$4,191,493	\$3,464,440
Net Amount at December 31	\$3,047,215	\$3,987,212

Management of the Corporation believes that the Corporation is able to meet obligations as they become due.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition all financial instruments, including derivatives, are recognized on the balance sheet at fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: held for trading, held to maturity, loans and receivables, available for sale and other liabilities. The Corporation has designated its financial instruments into the following categories applying the indicated measurement methods:

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Preferred LP units	Available for sale	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Derivative financial instruments	Loans and receivables	Fair value

The Corporation will assess at each reporting period whether there is a financial asset, other than those classified as held for trading, that is impaired. An impairment loss, other than temporary, is included in net earnings.

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investment in Quetico, the Corporation's lone foreign investment. The Corporation matched 100% of the 2013 scheduled distributions to the Canadian parent and 70% of the expected 2014 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

The Corporation records all transaction costs incurred, in relation to the acquisition of investments classified as "available for sale", as an additional cost of the investment. The Corporation applies trade-date accounting for the recognition of a purchase or sale of cash equivalents and derivative contracts.

The Corporation has the following financial instruments that mature as follows:

	Total	0-6 Months	6 mo - 1 yr	1 - 2 years	3 - 4 years
Accounts payable and accrued liabilities	1,805,561	1,805,561	0	0	0
Dividends payable	2,345,347	2,345,347	0	0	0
Income taxes payable	40,585	40,585	0	0	0
Bank indebtedness	50,000,000	0	0	33,333,333	16,666,667
Total	54,191,493	4,191,493	0	33,333,333	16,666,667

The Corporation has sufficient cash on hand to settle all current accounts payable, accrued liabilities, dividends payable and all scheduled repayments on the senior debt. In the event the senior debt is not renewed and principal payments become due, the debt would be refinanced, or alternatively, management expects that there would be sufficient cash flow from operations to meet all required repayments.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Corporation's management (including the CEO and CFO) of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109. Based on that evaluation, the Corporation's management (including the CEO and CFO) concluded that the Corporation's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosures of material information and are effective as of December 31, 2012.

B. Management Report on Internal Controls over Financial Reporting

The Corporation's management, (including the CEO and CFO) have assessed and evaluated the design and effectiveness of the Corporation's internal controls over financial reporting as defined in National Instrument 52-109 as of December 31, 2012. The Corporation's assessment included documentation, evaluation and testing of its internal controls over financial reporting. Based on that evaluation, the Corporation's management concluded that the Corporation's internal controls over financial reporting are effective and provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP and are effective as of December 31, 2012.

Internal controls over financial reporting, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial statement presentation and may not prevent or detect all misstatements.

SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior credit facility described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its lease for office space. The Corporation agreed to a new seven-year lease at a new location that commenced in 2009. Annual leasing costs will be approximately \$160,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	50,000,000	0	50,000,000	0	0
Office lease	651,554	166,354	485,199	0	0
Total Contractual Obligations	50,651,554	166,354	50,485,199	0	0

TRANSACTIONS WITH RELATED PARTIES

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary of the Corporation, Alaris USA Inc, a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation. All transactions with related parties are recorded at exchange amount. Related party transactions are measured at fair value.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

	2012	2011
Base salaries and benefits	678,414	638,610
Bonus	660,000	900,000
Share-based payments (non-cash)	1,112,955	1,204,925
	\$2,451,369	\$2,744,535

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management is required to make estimates when preparing the financial statements. Significant estimates include the amount of liabilities for services provided but not yet invoiced, stock-based compensation expenses, future income tax amounts, valuation of intangible assets and preferred limited partnership units and valuation of outstanding warrants.

The Corporation capitalizes legal and accounting costs relating to a specific transaction once a letter of intent has been signed. The Corporation's transactions structured as limited partnerships are not amortized and will be assessed for objective evidence of impairment at each balance sheet date. The Corporation's intangible assets are being amortized over the 80-year term of the agreements on a straight-line basis.

RECENT ACCOUNTING PRONOUNCEMENTS

Transition to International Financial Reporting Standards

The Corporation has adopted International Financial Reporting Standards (“IFRS”) for its 2011 and 2012 fiscal years as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its 2010 Annual Management’s Discussion and Analysis. The assessments and impacts discussion in the 2010 Annual Management’s Discussion and Analysis remains largely unchanged.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation’s 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

SUMMARY OF ANNUAL RESULTS

Amounts are in thousands except for income (loss) per unit/share:

	2012	2011	2010
Revenue	32,106	49,274	16,659
Earnings	18,036	34,712	7,401
Basic and Diluted Income per Share/Unit	Basic - \$0.86 Diluted - \$0.84	Basic - \$2.04 Diluted - \$1.97	Basic - \$0.56 Diluted - \$0.54
Total Assets	332,941	246,478	227,803
Total Financial Liabilities	54,191	9,964	32,018
Cash Dividends/Distributions declared per Share/Unit	Basic - \$1.18 Diluted - \$1.16	Basic - \$1.06 Diluted - \$1.02	Basic - \$0.96 Diluted - \$0.93

Revenue and earnings for the year ended December 31, 2011 were increased by the \$27.7 million in pre-tax gains on the reduction of the Corporation’s interest in LifeMark and the sale of its interest in MEDiChair. Before that adjustment, basic and fully-diluted income per share in 2011 was \$0.67 and \$0.65, respectively.

The Corporation has sufficient cash flow to pay out dividends but due to a number of non-cash items including depreciation and amortization, deferred income tax expense and stock based compensation expense, dividends paid can exceed earnings. Below is a table showing cash from operations from the

audited statement of cash flows compared to dividends paid in the year. In 2011, the gains from the reduction of interest in LifeMark allowed the Corporation to temporarily go above 100%.

	2012	2011	2010
Net cash from operating activities	26,464	14,610	12,377
Dividends/distributions paid	24,465	17,560	12,035
Payout ratio	92%	120%	99%

SUMMARY OF QUARTERLY RESULTS

Amounts are in thousands except for income (loss) per unit/share:

	Q4-12	Q3-12	Q2-12	Q1-12	Q4-11	Q3-11	Q2-11	Q1-11
Revenue	9,037	8,792	7,239	7,038	5,815	4,842	32,957	5,635
Earnings	4,931	4,868	4,160	3,957	6,369	2,721	22,710	2,925
Basic and Diluted	\$0.22	\$0.22	\$0.21	\$0.20	\$0.36	\$0.16	\$1.34	\$0.17
Income (loss) per Share/Unit	\$0.22	\$0.21	\$0.20	\$0.20	\$0.35	\$0.16	\$1.30	\$0.17

All periods reflect the implementation of IFRS. Q4-2011 includes a recovery of deferred income taxes of \$2.3 million. Q2-2011 includes the significant gains from the LifeMark Transaction.

OUTSTANDING SHARES

At December 31, 2012, the Corporation had authorized, issued and outstanding, 22,336,642 voting common shares.

In the year ended December 31, 2012, the Corporation issued: 2,515,000 shares by way of short form prospectus; 50,625 shares as a result of the exercise of options; 5,157 shares under the Restricted Share Unit ("RSU") Plan; and 290,650 shares that vested to management under the RSU Plan.

At December 31, 2012, 205,181 restricted share units and 1,406,161 stock options were outstanding under the Corporation's long-term incentive compensation plans. The weighted average exercise price of the outstanding options is \$16.92.

Subsequent to December 31, 2012, the Corporation issued 2,461,000 shares by way of short form prospectus; 198,400 shares as a result of the exercise of options; 31,250 shares that vested to Directors under the RSU Plan; and 182,821 shares by private placement to the owners of a new Partner. At March 13, 2013, the Corporation had 25,209,113 common shares outstanding.

SUBSEQUENT EVENTS

Subsequent to December 31, 2012, the Corporation entered into a partnership agreement with SHS Services Management effective March 2, 2013. Pursuant to the Partnership, Alaris contributed \$15,000,000 to SHS in exchange for an annual preferred distribution of \$2,500,000.

Subsequent to December 31, 2012, the Corporation loaned \$6 million pursuant to convertible promissory notes to LMS. The first note (\$3 million) can be repaid up until December 30, 2013 and thereafter can be converted into additional preferred LMS Units at Alaris' option. The second note (\$3 million) automatically converts to preferred LMS Units on December 31, 2013. For the purposes of calculating the distributions on the new LMS Units in 2014, the base rate on the promissory notes is set at 16% and will be adjusted by the change in gross profit along with the distributions on the original LMS Units.

OUTLOOK

Alaris' agreements with the Partners provide for payments estimated to provide the Corporation approximately \$44.7 million of revenues for 2013. For the first quarter of 2013, those same agreements call for revenues of approximately \$10.8 million for the Corporation. Annual general and administrative expenses are currently estimated at \$4.0 million annually and include all public company costs. The senior debt facility was drawn to \$50 million at December 31, 2012 but was reduced to \$14 million subsequent to year end. The annual interest rate on that debt was approximately 6.0% at December 31, 2012. Cash requirements after net income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment.

The Corporation plans to continue to seek out and enter into transactions accretive to the Corporation's earnings per share in the current Private Company Partners and other private businesses.

Certain information contained herein may be considered to be future oriented financial information or financial outlook under applicable securities laws, the purpose of providing such information in this MD&A is to demonstrate the visibility the Corporation has with respect to its revenue streams, subject to the risks identified for the business, and readers are cautioned that the information may not be appropriate for other purposes. See also "Forward Looking Information" below.

RISKS AND UNCERTAINTY

An investment in our securities involves a number of risks. The risks and uncertainties described below are all of the risks that we know about and that we have deemed to be material to our business or results of our operations. When reviewing forward-looking statements and other information contained in this MD&A, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect our future results. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for Management to predict all risk factors or the impact of such factors on our business. We assume no obligation to update or revise our risk factors or other information contained in this MD&A to reflect new events or circumstances, except as may be required by law.

We have organized our risks into the following categories:

- Strategic Risk Factors Relating to our Business
- Operational and Financial Risk Factors Relating to Our Business
- Risk Factors Relating to our Private Company Partners

Strategic Risk Factors Relating to Our Business

We have limited diversification in our Private Company Partners

Although Alaris currently has nine Private Company Partners, Alaris continues to have limited diversification in its Private Company Partners. The LifeMark Transaction permitted Alaris to rebalance and improve the diversification of our revenue stream. However, Alaris does not have stringent fixed guidelines for diversification with respect to our Private Company Partners. At any given point in time, we may have a significant portion of our assets dedicated to a single business or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, this could have a material adverse effect on our business, results from operations and financial condition.

We may not complete or realize the anticipated benefits of our Private Company Partner arrangements

A key element of our growth plan is adding new Private Company Partners and making additional investments in the initial Private Company Partners in the future. Our ability to identify and complete new investment opportunities is not guaranteed. Achieving the benefits of future investments will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of distributions.

We depend upon the operations and assets of our Private Company Partners.

We are entirely dependent on the operations and assets of our Private Company Partners through our agreements with them. Our ability to pay dividends, to satisfy our debt service obligations and to pay our operating expenses is dependent on the Distributions received from our Private Company Partners, our sole source of cash flow. Distributions to Alaris from our Private Company Partners are generally based on a percentage of the Private Company Partners' revenues, same-store sales, gross margin or other similar top-line measure. Accordingly, subject to certain conditions, to the extent that the financial performance of a Private Company Partner declines with respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any Private Company Partner to fulfill its distribution obligations to Alaris could materially adversely affect our financial condition and cash flows.

Our agreements with our Private Company Partners provide us with certain remedies in the event of non-payment of Distributions by the applicable Private Company Partner. In addition, some of our arrangements (in particular, End of the Roll) are secured by the assets of the Private Company Partner. However, our rights to payment and our security interests are generally subordinated to the payment rights and security interests of a Private Company Partner's commercial lenders.

We do not have significant influence over any of our Private Company Partners or their operations nor do we have the ability to exercise control over such Private Company Partners. The Distributions received by us from our Private Company Partners therefore depend upon a number of factors that may be outside of our control.

There is generally no publicly available information, including audited or other financial information about our Private Company Partners and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, although our Private Company Partners are required to provide Alaris with regular financial and operating information on a monthly and annual basis pursuant to our agreements with them, investors must rely on Alaris Management and its consultants to investigate and monitor the Private Company Partners. Consider combining with risk factor on pg. 35, delete sentence if so and replace with the following: (Rider 26 A) Therefore, we rely on our Management and consultants to investigate these businesses. There can be no assurance that our due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. Private Company Partners may have significant variations in operating results; may from time to time be parties to litigation; may be engaged in rapidly changing businesses; may expand business operations to new jurisdictions, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; or may be adversely affected by changes in the business cycle. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by Alaris. See "*Risk Factors Relating to our Private Company Partners*".

Our ability to manage future growth and carry out our business plans may have an adverse effect on our business and our reputation

Our ability to sustain continued growth depends on our ability to identify, evaluate and contribute financing to suitable private businesses that meet our criteria. Accomplishing such a result on a cost-effective basis is largely a function of Alaris' sourcing capabilities, our management of the investment process, our ability to provide capital on terms that are attractive to private businesses and our access to financing on acceptable terms. As Alaris grows, we will also be required to hire, train, supervise and manage new employees. Failure to manage effectively any future growth or to execute on our business plans to add new Private Company Partners could have a material adverse effect on our business, reputation, financial condition and results of operations.

We are subject to risks affecting any new Private Company Partners

If Alaris is successful in partnering with one or more new Private Company Partners, the businesses of these Private Company Partners may be subject to one or more of the risks referred to under "*Risk Factors Relating to our Private Company Partners*" or similar risks and may be subject to other risks particular to such business or businesses.

We may be adversely affected by general economic and political conditions

Our business and the business of each of the Private Company Partners are subject to changes in national or North American economic conditions, including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. Market events and conditions in the last 3 years, including disruptions in the international credit markets and other financial systems and the American and European Sovereign debt level resulted in a deterioration of global economic conditions. These conditions have caused a decrease in confidence in the broader U.S. and global credit and financial markets and created a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, concerns remain about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have caused the broader credit market to further deteriorate and stock market to decline substantially. This volatility may in the future affect our ability to obtain equity or debt financing on acceptable terms. These factors have also negatively impacted company valuations and will impact the performance of the global economy going forward and could have a material adverse effect on our and our Private Company Partners' business, financial condition, results of operations and cash flows.

In addition, economic conditions in North America and globally may be affected by political events throughout the world that cause disruptions in the financial markets, either directly or indirectly. In particular, conflicts, or conversely peaceful developments, arising in the Middle-East and other areas of the world that have a significant impact on the price of important commodities can have a significant impact on financial markets and global economy. Any such negative impacts could have a material adverse effect on our Company and our Private Company Partners' business, financial condition, results of operations and cash flows.

We face competition with other investment entities

Alaris competes with a large number of private equity funds and mezzanine funds, investment banks, equity and non-equity based investment funds, and other sources of financing, including the public capital markets. Some of our competitors, particularly those operating in the United States, are substantially larger

and have considerably greater financial resources and available funding structures than us. Competitors may have a lower cost of funds and many have access to funding sources and unique structures that are not available to Alaris. In addition, some of our competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments and establish more relationships and build their market shares. There is no assurance that the competitive pressures that we face will not have a material adverse effect on our business, financial condition and results of operations. Also, as a result of this competition, we may not be able to take advantage of attractive investment opportunities and there can be no assurance that Alaris will be able to identify and make investments that satisfy our business objectives or that we will be able to meet our business goals.

Operational and Financial Risk Factors Relating to Our Business

We are subject to tax related risks

Alaris has various unclaimed non-capital losses, scientific research and experimental development expenditure pools and other deductions and credits available to it for Canadian federal income tax purposes. These unclaimed deductions and credits are subject to assessment and possible downward adjustment by Canadian tax authorities. Although we are of the view that all expenses and tax credits claimed by us are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected.

Alaris has also established Alaris Coop and Alaris USA for the purpose of financing and entering into arrangements with potential Private Company Partners in the United States and other jurisdictions. Our corporate structure for this purpose was implemented having regard to the corporate and tax laws and regulations of Canada, The Netherlands and the United States, as well as the income tax conventions between those countries to date, and our understanding of the current administrative practices and policies of the taxation authorities of each such jurisdiction. Such laws, regulations and conventions are subject to change from time to time. There is a possibility that such a change may be made, including with retroactive or retrospective effect. In addition, such structure is subject to assessment and possible adjustment by any of the taxation authorities of such jurisdictions. Although we are of the view that the corporate structure has been implemented correctly and is being managed and monitored properly, there can be no assurance that the tax authorities of such jurisdictions will agree. If such tax authorities successfully challenge any aspect of our financing and corporate structure, our operating results could be adversely affected.

There are risks related to Alaris' and our Private Company Partners' outstanding debt

Certain features of our outstanding debt, including the renewal of such debt on substantially similar terms, and the nature of any outstanding debt of the Private Company Partners could adversely affect our ability to raise additional capital, to fund our operations, to pay dividends, and could limit our ability to react to changes in the economy and our industry, expose us to interest rate risks and could prevent us from meeting certain of our business objectives.

There are no guarantees as to the availability of future financing for operations, dividends and growth

We expect that our principal sources of funds will be cash generated from the Private Company Partners. We believe that funds from these sources will provide Alaris with sufficient liquidity and capital resources to meet our ongoing business operations at existing levels. Despite our expectations, however, Alaris may require additional equity or debt financing to meet our financing and operational requirements. There can be no assurance that this financing will be available when required or available on commercially favourable

terms or on terms that are otherwise satisfactory to Alaris, in which event our financial condition may be materially adversely affected.

The payout by Alaris of substantially all of our operating cash may make additional investment capital and operating expenditures dependent on increased cash flow or additional financings in the future. Alaris may require equity or debt financing in order to acquire interests in new Private Company Partners or make additional contributions to our current Private Company Partners. Although we have been successful in obtaining such financing as and when required to date, there can be no assurance that such financing will be available when required or will be on commercially favourable terms. A lack of availability or commercially favourable terms could limit our growth. The ability of Alaris to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance.

Our ability to pay dividends is affected by the degree to which we are leveraged

Our ability to pay dividends is subject to applicable laws and contractual restrictions in the instruments governing our indebtedness. The degree to which Alaris is leveraged could have important consequences for Shareholders including: (i) our ability to obtain additional financing for working capital or investments in the future may be limited; (ii) all or part of our cash flow from operations may be dedicated to the payment of the principal of and interest on our indebtedness, thereby reducing funds available for future operations or for payment of dividends; (iii) certain of our borrowings are at variable rates of interest, which exposes us to the risk of increased interest rates; and (iv) we may be more vulnerable to economic downturns and be limited in our ability to withstand competitive pressures. These factors may adversely impact our cash flow, and, as a result, the amount of cash available for payment of dividends.

Interest expense has been estimated for the purpose of estimating our distributable cash based on current market conditions that are subject to fluctuations. Such fluctuations could result in an unanticipated material increase in interest rates that could in turn have a material adverse effect on cash available for dividends to Shareholders.

We and our Private Company Partners rely heavily on key personnel

The success of Alaris and of each of our Private Company Partners depends on the abilities, experience, efforts and industry knowledge of their respective senior management and other key employees, including their ability to retain and attract skilled management and employees. The long-term loss of the services of any key personnel for any reason could have a material adverse effect on the business, financial condition, results of operations or future prospects of Alaris or a Private Company Partner. In addition, the growth plans of Alaris and the Private Company Partners described in this MD&A may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. Alaris and the Private Company Partners may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that Alaris or the Private Company Partners will be able to effectively manage their growth, and any failure to do so could have a material adverse effect on our business, financial condition, results of operations and future prospects.

As a public company, we are subject to significant regulation

Alaris, its subsidiaries, and the Private Company Partners are subject to a variety of laws, regulations and guidelines in the jurisdictions in which they operate (including Dutch, U.S., Canadian federal, provincial and local laws) and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions or additional changes to the jurisdictions in which they operate. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Alaris' and the Private Company Partners' business,

resources, financial condition, results of operations and cash flows. Such laws and regulations are subject to change. Accordingly, it is impossible for Alaris or the Private Company Partners to predict the cost or impact of such laws and regulations on their respective future operations.

Our private company partners have termination rights which may be exercised

Each of our Private Company Partners has the right to terminate their agreement with Alaris through a repurchase or redemption right that arises after a fixed period of time following the closing of our arrangement with the applicable Private Company Partner. Although Management believes that the repurchase or redemption purchase price would adequately compensate Alaris for the foregone payments, we would be required to reinvest the cash received including possibly investing in our own shares through the repurchase and cancellation of our shares, in order to maintain our dividend levels. There is no assurance that we would be able to successfully identify and complete any such alternative investments or complete any such share repurchase.

We are subject to fluctuations in currency

Certain of our distributions are paid and received by us in United States dollars. However, our dividends are paid to our Shareholders in Canadian dollars. Current, we have in place forward hedging contracts to manage the risk and economic consequences of foreign exchange fluctuations. However, the Canadian dollar relative to the United States dollar is subject to fluctuations and the forward contracts are for a limited period of time. There can be no guarantee that these contracts will continue to adequately protect against such fluctuations for the long term. As such, failure to adequately manage our foreign exchange could adversely affect our business, financial condition, and results of operations.

There are no guarantees as to the timing and amount of our dividends

The amount of dividends paid by us will depend upon numerous factors, including Distributions received, profitability, debt covenants and obligations, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors which may be beyond our control. Dividends are not guaranteed and will fluctuate with our performance and the performance of our Private Company Partners. There can be no assurance as to the levels of dividends to be paid by us, if any. Alaris will also incur expenses as a public issuer. Should any estimate of such expenses prove inadequate or if unanticipated public issuer expenses are incurred, it would reduce cash available for payment of dividends. The market value of the Common Shares may deteriorate if we are unable to pay dividends in accordance with our dividend policy in the future, or not at all, and such deterioration may be material. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by us and potential legislative and regulatory changes.

Our ability to recover from Private Company Partners for defaults under our agreements with them may be limited

Each Private Company Partner provides certain representations and warranties and covenants to us regarding the Private Company Partner and its business and certain other matters. Following a transaction with Alaris, the Private Company Partner may distribute all or a substantial portion of the proceeds that it receives from us to its security holders or owners. In the event that we suffer any loss as a result of a breach of the representations and warranties or non-compliance with any other term of an agreement with a Private Company Partner, we may not be able to recover the amount of our entire loss from the Private Company Partner. The Private Company Partner may not have sufficient property to satisfy our loss.

Our share price is unpredictable and can be volatile

A publicly traded corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements we make, general economic conditions, and other factors.

We may issue additional Common Shares diluting existing Shareholders' interests

We may issue an unlimited number of Common Shares, or other securities for such consideration and on such terms and conditions as shall be established by us without the approval of Shareholders. Any further issuance of Common Shares will dilute the interests of existing Shareholders. The Shareholders will have no pre-emptive rights in connection with such future issuances.

We are subject to a risk of legal proceedings

In the normal course of business, we may be subject to lawsuits, claims and litigation for amounts not covered by our liability insurance. Some of these proceedings could result in significant costs. Although the outcome of such proceedings is not predictable with assurance, Alaris has no reason to believe that the disposition of such matters could have a significant impact on our financial position, operating results or ability to carry on our business activities. As of the date of this MD&A, no material claims or litigation have been brought against Alaris.

Our capacity to protect our intellectual property may be limited

We rely on various intellectual property protections, including trademark laws, to preserve our intellectual property rights, particularly those in End of the Roll. To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of Management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenues, financial position and results of operations.

Risks Relating to Our Private Company Partners

Risks relating to our Material Private Company Partners

Our material Private Company Partners, being LifeMark Health, LMS, Solowave, KMH, Killick and Quetico, face a number of business, operational and other risks which if realized, could have a material impact on our operating results and conditions. These risks are outlined in more detail below.

Risks Relating Specifically to LifeMark Health

<i>Government Regulation</i>	Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements. Unlike certain other healthcare industry segments, specifically pharmaceuticals, laboratory services and hospital management companies, LifeMark Health operates in markets that are not regulated. LifeMark Health does not require a special license or permit from any governmental body to operate, aside from the license required for the medical imaging business and those normally required for all businesses. All of LifeMark Health's medical personnel, both physicians and registered nurses, are required to maintain the requisite professional licenses from their respective governing
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professional bodies. Notwithstanding that LifeMark Health operates in markets that are not currently regulated, any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on the scope of LifeMark Health's activities.

Customer Concentration LifeMark Health's revenue is dependent in part on contracts from certain governmental agencies. The loss of any such contract would have a significant adverse effect on LifeMark Health.

Confidentiality of Personal & Health Information The collection, use and disclosure of patient personal and health information are subject to substantial regulation by the federal and, in most cases, provincial governments. These laws provide that an individual's consent is required prior to the collection, use and disclosure of information collected from them (with limited prescribed exceptions), that the collected information be protected with reasonable security measures and that the individual have access to the information so collected in order to ensure its accuracy. In addition, future legislation may affect the dissemination of health information that is not individually identifiable. Physicians and other persons providing patient information to LifeMark Health are also required to comply with these laws and regulations. If a client's privacy is violated or if LifeMark Health is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

Risks Relating Specifically to LMS

Steel Pricing Risks The world steel markets in which LMS operates can be extremely volatile and cyclical. Up to approximately 60% of LMS's variable costs can be attributed to the price of steel. A failure of LMS to anticipate and appropriately respond in a timely fashion to steel pricing trends in the purchasing and selling of steel products may have a material adverse effect on LMS's results.

Reinforcing steel products are typically sold by means of fixed price contracts, where the reinforcing steel is provided to the customer over a period of time which may range from several weeks to several years. At any point in time, therefore, LMS is contractually obligated to supply significant quantities of steel at a predetermined price. LMS does not hold inventory in quantities to match these obligations. The proportion of inventory to outstanding contractual obligations varies according to management's anticipation of steel pricing trends, but in any event, a material portion of the contractual obligations will always be exposed to future steel purchase pricing risk. If contractual obligations have to be fulfilled by steel purchased at higher costs, then LMS will incur lower realization on those contracts which will have an adverse effect on LMS's results.

LMS's other steel products are sold and shipped within a very short timeframe. These sales are often supported with large inventories of raw materials. During a period of falling prices for raw materials such as what occurred in late 2008, LMS would normally expect price realization on shipments of LMS's finished products to deteriorate, producing inferior returns during the period when older inventories are being sold.

General Economic Conditions Affecting LMS Market events and conditions beginning in 2008, including disruptions in the international credit markets and other financial systems resulted in a deterioration of global economic conditions and had a negative effect on LMS' operations. Specifically, LMS experienced a dramatic shift in its business late in its fiscal 2008 year that

included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was that LMS incurred material bad debt expenses for the first time in its operating history that decreased its reported gross profit for 2008 and a significant drop in its gross profit in 2009. The decline was based on both reduced volumes caused by the economic environment and credit crisis as well as by temporarily depressed margins that were caused by high priced inventory that resulted from cancelled projects. As a result of these factors, LMS' distribution to Alaris in 2010 decreased. Since 2009, LMS' gross profits have continued to be impaired due to construction market conditions across Western Canada. Since 2011, LMS has seen sales volume steadily improve in all of its regions and has seen corresponding improvement in gross profit. However, challenging market conditions might continue to have a negative impact on LMS' business, financial condition, results of operation and cash flows and could have a material adverse effect on Alaris.

Supplier Base LMS relies on key suppliers for the supply of raw materials. Disruption of any one supplier could have a material adverse effect on the ability of LMS to secure its supplies, as well as an increase in the cost of those supplies adversely affecting its financial results.

Labour Relations Risk Approximately one-half of LMS's employees are unionized or governed by collective trade agreements. Although these agreements are with multiple union locals within diverse regions, a labour dispute with any union or employee association could adversely affect LMS' business.

Trade Policy Restrictions LMS is a significant importer of commodity steel products that are sourced both domestically and globally. Steel is often the subject of cross border trade disputes. Any material dispute that is not resolved in LMS's favour could have a material adverse effect on LMS's results.

Risks Relating Specifically to Solowave Design

Customer Risk Solowave's four largest customers represent approximately 78% of Solowave's revenues. Although Solowave has increased revenues from other customers in the last three years, these four customers continue to represent a large portion of Solowave's revenues. Should these four customers experience difficulties in fulfilling their financial obligations to Solowave, cease to do business with Solowave, or significantly reduce orders from Solowave, there could be a material adverse effect to Solowave's business, financial condition and cash flows, which could in turn have a material adverse effect on Alaris. Solowave has accounts receivable insurance in place to protect payments, but the insurance recovery process could take time to realize. In addition, should any of Solowave's major customers seek price reductions, additional financial incentives, or changes in sale terms, Solowave's business could be adversely affected.

International Operations Risk Solowave sources certain component parts from Asia and assembles some of its goods in leased space in China. In addition, Solowave distributes a large number of its products through its distribution centre in Buffalo, New York, USA. These operations are subject to the risks normally associated with international operations, including but not limited to: currency conversion risks and currency fluctuations; political instability; civil unrest and economic instability; complications in complying with laws in several jurisdictions; changes in governmental policies; rising costs of raw materials; rising energy prices; blackouts due to energy shortages; transportation delays,

interruptions and strikes; and the potential imposition of tariffs. Should Solowave's operations in China or the USA be impacted as a result, Solowave would need to shift additional business volumes to its Canadian manufacturing centre, which would significantly increase transportation and manufacturing costs and possibly disrupt its business. Also, the imposition of trade sanctions by Canada, the USA or China against any of the products imported by Solowave could significantly increase Solowave's manufacturing costs.

<i>Seasonal Business Risks</i>	The majority of Solowave's back yard active play sets are shipped for delivery and sold by its customers between February and August. As such, any interruption to the shipment of product to Solowave's customers during its peak selling season can result in a permanent loss of sales revenue for both Solowave and its customers, as well as an increase in Solowave's inventory carrying costs. Both of these items could potentially adversely affect Solowave's financial condition. In addition, a failure by Solowave to properly manage its seasonal sales cycle could result in a temporary or permanent loss of orders from customers, a strain on Solowave's working capital or a shortage of labour, all of which would adversely affect Solowave's financial condition and operating results.
<i>Natural or Other Disasters</i>	The risk to Solowave's financial condition would depend on the severity of the damage caused; the length of time the affected operations were off-line; the length of time for Solowave to realize upon its insurance coverage; and the extent of damage covered by Solowave's business interruption insurance. A fire or other unforeseen disaster could interrupt Solowave's manufacturing or distribution operation, or cause damage to Solowave's inventory or equipment. Such disaster could adversely affect Solowave's financial condition and operating results.
<i>Product Recall Risk</i>	As a manufacturer of products that are used by children, Solowave is subject to strict product safety regulations and guidelines. A major product recall instituted either by the governing bodies or by Solowave, could adversely affect Solowave's financial condition; and could lead to a permanent loss of revenue.

Risks Relating Specifically to KMH

Customer Risk	Any cause that would reduce the affordability to pay for private healthcare will negatively affect KMH's volumes and revenue. A loss or reduction of personal income, due to continued unemployment in the U.S., and uncertain economic conditions, has a direct impact on the ability of U.S. citizens to pay for private insurance.
Medical Reimbursement Rates	KMH derives the majority of its revenue from public health insurance programs. Therefore, any major change in these programs would negatively impact KMH. The largest risk KMH faces in the U.S. is the fact that reimbursement rates are dictated by Medicare. If Medicare decides to cut these rates significantly, all issuers follow, leading to a substantial decrease in margins.
Referral Loss	KMH's revenue is dependent in part on referrals from centers that do not have in-house medical imaging capabilities. The loss of any of these referrals would have a significant adverse effect on KMH's business. Aside from a general decline in referrals, a complete loss of a referral channel could result if a private practice sells their practice to a local hospital that has its own internal imaging capabilities.
Supplier Base	KMH relies on key suppliers for the supply of isotopes. Isotopes are essential to conducting nuclear medicine diagnostic tests. The supply of isotopes can be affected by a number of factors, including, without limitation, an interruption of operations at any nuclear reactors around the world or increased regulation with respect to the production of nuclear power. If KMH loses its supply of isotopes, for even a short period of time, it could result in a significant decrease in nuclear tests conducted, affecting revenue.
Regulation	KMH operates in a strictly regulated industry. All KMH facilities are subject to scrutiny by the regulators and any failures to comply with set requirements could result in the loss of KMH's operating licenses. In addition, any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on the scope of KMH's activities.
Foreign Exchange Rate Fluctuations	Though minimal, KMH is exposed to foreign exchange rate fluctuations from the U.S. operations thus decreasing income from U.S. operations if affected negatively by a USD to CDN dollar rate change.

Risks Relating Specifically to Killick

Government Regulation	The size and scope of the global maintenance, repair & overhaul market is determined largely by government regulatory requirements created to ensure the safety of the air traveling public. Any change in the governmental regulation and licensing requirements or interpretation and application of same relating to aircraft maintenance and service could have an adverse impact on the scope of Killick's operations and volumes.
New Product Risk	The threat of a new model of engine coming to market has the potential to significantly reduce the demand for the types of engines and parts that Killick services and supplies. However, an event can generally be predicted and planned for well in advance of the product arriving in the market.
Customer	In the market segment that Killick's CT Aerospace division participates, buyers are

Bargaining Power Risk limited in number but large in size and industry influence. Buyers exercise increased power as the available options for sources of engine parts are often many. Participants in the market segment in turn work to distinguish themselves from the competition in an effort to win their business, making the market segment highly relational and service oriented. Losing favor with a buyer could result in an adverse impact on CT Aerospace's revenue.

General Economic Conditions The growth of the MRO market is driven by two main factors: the growth of the worldwide aircraft fleet and the increased average age of the fleet as evidenced by cumulative number of flight hours. Economic factors negatively effecting demand and overall industry flight time could reduce the level of work for MRO operations.

Risks Relating Specifically to Quetico

Customer Risk Quetico's largest customer represents approximately 70% of Quetico's revenues. Substantial decreases in product and servicing orders from this customer could adversely affect Quetico's business, financial condition and results from operations. Quetico's relationship with this customer is over two decades old and Quetico is integrated into the customer's inventory system, offering services that no other company currently provides. However, if the customer starts to see its sales volumes across North America decline or decides to use additional service providers, it may have a materially negative effect on Quetico's business, and therefore have a material effect on Alaris.

Operational Risk Quetico has no formal agreements with any of its wholesale merchandise customers, except for in respect to licensing and royalty agreements. The Company conducts wholesale business with purchase orders from retailers, or brand owners, which indicate a future commitment or promise to take ownership of inventory at some time in the future. If at any point, a customer does not honour a purchase order commitment, Quetico will have inventory to sell to cover its financial position on the transaction. There can be no guarantee that this will be sold, particularly in a weak economy. In addition, carrying the additional inventory may cause a drain on Quetico's capital availability to fund new transactions.

Risks Relating Specifically to Labstat

Timing of U.S. Regulatory Implementation Labstat anticipates that it will benefit significantly from newly implemented regulations in the United States beginning in April of 2013. These regulations are being imposed by the FDA and are expected to require importers of tobacco in the United States to conduct regulatory testing on their tobacco products. If these new regulations do not get implemented on time (or at all) and if the market is smaller than anticipated by Labstat, it could result in lower than expected future revenue.

Reduction in the Number of Tobacco Brands If there is a significant reduction in the number of brands of tobacco products sold worldwide it would affect the number of tests Labstat would conduct for specific manufacturers. Currently each brand of tobacco product sold in Canada must be tested in to meet regulatory requirements. If manufacturers merge or reduce the number of brands they sell they will require less testing to be conducted by Labstat. This could lead to a decrease in revenue to Labstat.

Seasonality of Revenue There is a significant seasonality of revenue in the tobacco testing industry. In the event that Labstat does not properly forecast its headcounts for slow periods, or if slow periods last longer than they have historically, it could face working capital short-falls,

creating liquidity issues for the company.

Foreign Exchange Risk	Labstat is exposed to foreign exchange volatility as approximately 50% of its revenue is based in U.S dollars. They currently mitigate the risk of large swings in currency rates by writing forward contracts. However, a large un-hedged swing in the USD/CAD exchange rate could negatively affect Labstat's cash flow, which in turn may hinder its ability to pay its obligations to creditors and Alaris.
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Risks relating to all of our Private Company Partners, generally

In addition to the risks relating specifically to our material Private Company Partners (being LifeMark Health, LMS, Solowave, KMH, Killick and Quetico), there are several other risks which impact all of our current and future Private Company Partners collectively, which if realized, could have a material impact on our operations and financial condition, as described below.

There is no publicly-available information concerning our Private Company Partners

There is generally no publicly available information regarding private businesses and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, we rely on our Management and consultants to investigate these businesses. There can be no assurance that our due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. Private Company Partners may have significant variations in operating results; may from time to time be parties to litigation; may be engaged in rapidly changing businesses; may expand business operations to new jurisdictions, may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; or may be adversely affected by changes in the business cycle. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by us.

How a Private Company Partner is leveraged may have adverse consequences to them

Leverage may have important adverse consequences on our Private Company Partners. Private Company Partners may be subject to restrictive financial and operating covenants. Leverage may impair our Private Company Partners' ability to finance their future operations and capital needs. As a result, their flexibility to respond to changing business and economic conditions and to business opportunities may be limited. A leveraged company's income and net assets will tend to increase or decrease at a greater rate than if borrowed money was not used.

Our Private Company Partners rely on key personnel

Often, the success of a private business depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on a Private Company Partner's operations or ability to access additional capital qualified personnel, expand or compete.

A lack of funding for our Private Company Partners could have adverse consequences to them

Each of our Private Company Partners will continue to require additional working capital to conduct their existing marketing activities and to expand their businesses. Our Private Company Partners will need to

raise additional funds through collaborations with corporate partners or through private or public financings to support their long-term growth efforts. If adequate funds are not available, our Private Company Partners may be required to curtail their business objectives in one or more areas. There can be no assurance that unforeseen developments or circumstances will not alter a Private Company Partner's requirements for capital, and no assurance can be given that additional financing will be available on acceptable terms, if at all.

Our Private Company Partners may suffer damage to their brand reputations

Damage to the reputation of our Private Company Partners' brands, or the reputation of the brands of suppliers of products that are offered by the Private Company Partners, could result from events out of the control of our Private Company Partners. This damage could negatively impact consumer opinion of our Private Company Partners or their related products and services, which could have an adverse effect on the Private Company Partners' performance.

Our Private Company Partners face intense competition

Our Private Company Partners may face intense competition, including competition from companies with greater financial and other resources, more extensive development, manufacturing, marketing, and other capabilities, and a larger number of qualified managerial and technical personnel. There can be no assurance that our Private Company Partners will be able to successfully compete against their respective competitors or that such competition will not have a material adverse effect on their businesses, financial condition, results of operations and cash flows and therefore the amount of or their ability to service their obligations to Alaris.

Additional franchises and franchise operations may be limited

One of our Private Company Partners, End of the Roll is a franchisor. The growth of revenues of this company is largely dependent upon their ability to maintain and grow its franchise systems and to execute its current growth strategy for both increasing the number of franchisees and increasing the number of locations. If this company is unable to attract qualified franchisees, its operations could be adversely affected. The slowing of growth could lead potential and existing franchisees to begin to look elsewhere for better opportunities. The growth of the franchise network through adding new franchisees is somewhat dependent upon available personnel.

The franchisees that operate the franchise systems are independent owners. The franchisees are bound by the applicable franchise agreements to maintain certain standards and to operate within the franchise system. However, the franchisees are not directly under the control of the franchisors and may not in all cases comply with the requirements of the franchisors. The failure of a number of franchisees to comply with the franchise agreements or to maintain the standards of the franchisors may have an adverse effect on the applicable franchisor's brand and operating results.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward-looking statements. Statements other than statements of historical fact contained in this MD&A may be forward-looking statements, including, without limitation, management's expectations, intentions and beliefs concerning the growth, results of operations, performance and business prospects and opportunities of the Corporation and the Partners, the general economy, the amount and timing of the declaration and payment of dividends by the Corporation, the future financial position or results of the Corporation, business strategy, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving the Corporation or the Partners. In particular, this MD&A contains forward-looking statements regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses as well as the expected future performance of the Partners. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which these forward-looking statements are based will occur. Forward-looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward-looking information contained in this MD&A. Statements containing forward-looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward-looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The forward-looking information contained herein are based on certain assumptions, including assumptions regarding the performance of the Canadian and U.S. economies in 2012 and 2013 and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners; the continuing ability of the Private Company Partners to pay the distributions; and the performance of the Private Company Partners. Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward-looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; future sales of common shares by significant shareholders; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; and liquidity of Common Shares. The information contained in this MD&A, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward-looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward-looking statements included in this MD&A are made as of the date of this MD&A

and Alaris does not undertake or assume any obligation to update or revise such statements to reflect new events or circumstances except as expressly required by applicable securities legislation.

ADDITIONAL INFORMATION

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on available on SEDAR at www.sedar.com.

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