



**ANNUAL REPORT**

For the Fiscal Year Ended December 31, 2008

## TABLE OF CONTENTS

<b>PRESIDENT’S MESSAGE .....</b>	<b>3</b>
<b>THE ALARIS STRUCTURE.....</b>	<b>5</b>
<b>PRIVATE COMPANY PARTNERS .....</b>	<b>6</b>
LifeMark Health .....	7
LMS Reinforcing Steel Group .....	8
MEDiChair .....	9
End of the Roll .....	10
<b>CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>11</b>
Auditor’s Report.....	12
Consolidated Balance Sheets .....	13
Consolidated Statements of Operations and Deficit.....	14
Consolidated Statements of Cash Flows.....	15
<b>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.....</b>	<b>16</b>
<b>MANAGEMENT DISCUSSION AND ANALYSIS (MD&amp;A).....</b>	<b>31</b>

### **Forward-Looking Statements**

This annual report contains forward-looking statements. Statements other than statements of historical fact contained in this annual report are 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 Finance Group, the general economy, the amount and timing of the 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 Finance Group. 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. In particular, this annual report contains forward-looking statements regarding the anticipated financial and operating performance of the Finance Group in 2009 and the anticipated impact on the dividends and distributions to be received by the Corporation in 2010. In addition to the general factors outlined above, the forward-looking statements relating to LMS assume that LMS will benefit from the British Columbia provincial government's announcement of \$14 billion of new infrastructure projects and higher priced inventory being installed in future construction projects, and the forward-looking statements relating to the other Finance Group Members assume that such Finance Group Members will continue to have favorable operating results.

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. The actual results of the Corporation and the Finance Group could materially differ from those anticipated in the forward-looking statements contained herein as a result of certain risk factors, including, but not limited to, the following: the dependence of Alaris on the Finance Group; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefit of Alaris' financing arrangements with the Finance Group; limited diversification of Alaris' financing arrangements with the Finance Group; management of future growth; availability of future financing; competition; government regulations; leverage and restrictive covenants under credit facilities; the ability of a Finance Group Member to terminate the agreements pursuant to which Alaris has invested in such Finance Group Member; risk relating to the Finance Group and their businesses; unpredictability and potential volatility of the trading price of Common Shares; fluctuations of dividends; restrictions on the potential growth of Alaris as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risk; future sales of Common Shares by significant shareholders; ability to recover from a Finance Group Member for defaults under the agreements pursuant to which Alaris has invested in such Finance Group Member; conflicts of interest; dilution; and liquidity of Common Shares. Accordingly, readers are cautioned not to place undue reliance on any forward-looking information contained in this annual report. Statements containing forward-looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this annual report. 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.

The Corporation disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities law.

### **Non-GAAP Measures**

The term EBITDA, is a financial measure used in this annual report that is not a standard measure under Canadian generally accepted accounting principles ("GAAP"). The Corporation's method of calculating EBITDA may differ from the methods used by other issuers. Therefore, the Corporation's EBITDA may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings (loss) determined in accordance with GAAP, 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. The Corporation has provided a reconciliation of net income (loss) to EBITDA in this annual report.

EBITDA should only be used in conjunction with the Corporation's annual audited and quarterly reviewed financial statements. The Corporation's annual audited financial statements for the year ended December 31, 2008 are included in and form a part of this annual report. The Corporation's quarterly reviewed financial statements are available online under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

## **PRESIDENT'S MESSAGE**

The year 2008 will be remembered as one of the most challenging years of the last century; a year when financial and economic events happened that had not been seen before in our lifetimes. While the structure that Alaris has created was purposely tailored to reduce risk and volatility, even that could not completely shelter us from the events that occurred in late 2008.

To be sure, the innovative Alaris structure did help reduce the impact of the economic downturn. Structuring Alaris' returns to be based on top line performance and in priority to the common shareholders of our private company partners, as well as having a substantial buffer on previous cash flow levels, have all proven to be very wise facets of our unique way of funding private companies. This structure will continue to benefit our shareholders as we gradually recover from this economic storm.

In March of 2009 we were forced to react to the events of late 2008 as it related to one of our four private company partners, LMS Reinforcing Steel Group. Due to the collapse of the financial sector, most notably Lehman Bros., LMS was left with material bad debts for the first time in the company's history. The combined impact of reduced volumes and high-priced inventory, which resulted from cancelled or delayed projects, is expected to have a material impact on LMS' 2009 financial results. LMS has a very strong balance sheet (which includes low debt levels and a strong working capital position) and is expected to benefit from infrastructure spending that has been announced by the provincial governments of Western Canada. However, the short term impact of the credit crisis had to be accounted for in Alaris' dividend policy.

Obviously this was a very difficult decision for our board of directors but it was one that was important to our future financial health. Key considerations in this decision included: (i) ensuring our expected cash flows for 2010 matched an appropriate dividend rate; (ii) staying on covenant throughout 2010 with our senior lenders; and (iii) providing the market with knowledge of what the full extent of the downside is with LMS so that we can move forward and grow. Rest assured, we continue to take steps to diversify and build our company with the goal of restoring our dividends to previous levels and beyond.

### **A Milestone Year**

For all of the challenges that 2008 brought, we will also remember it as a milestone year for our company. In July 2008, following a successful \$55,000,000 private placement, Alaris Income Growth Fund L.P. entered into a plan of arrangement with 6550568 Canada Inc. (now "Alaris Royalty Corp."). Being able to become a publicly traded company four and a half years after the inception of our company was especially gratifying given the market conditions we were facing. We have always felt that having access to capital in the public markets is the key to our ability to diversify and grow our company in the long run. For investors, our unique structure and ability to pay out dividends is perfectly suited to those who are searching for yield generating products.

### **The Path Forward**

With the shock of the 2008 financial crisis behind us, we look forward to what 2009 will bring. LifeMark Health, MEDiChair and End of the Roll continue to perform remarkably well in this difficult environment. All three companies have characteristics that allow them to prosper, even in difficult times. For their fiscal year ending 2008, LifeMark and MEDiChair posted same store sales increases of 5.63% and 4.12% respectively. For Alaris, this means an increase in royalty revenue for 2009 of more than \$420,000 from LifeMark and an increase of more than \$46,000 from MEDiChair.

By the end of 2009 we also expect to see steady margin improvement from LMS. These improvements will come as LMS installs the remainder of its high priced steel inventory, which was a result of cancelled projects in Q3 and Q4 of 2008, and as its sees new project volumes increase, albeit at a slow and cautious rate. With this high priced material going into current and previously delayed projects in Western

Canada, LMS can start to buy steel at today's much more favorable commodity prices, thus improving their competitiveness on future bids.

The flip side of the current financial environment is that the opportunities for entering into new partnerships with other private companies, at valuations that we have not seen in many years, are numerous. For Alaris, it is also a very unique time to be evaluating these private companies in that they have just been through challenges that many of them have never gone through. Becoming partners with companies that have stayed strong through this past year (and at multiples lower than they were just six months ago) is a tremendous opportunity for Alaris. We are extremely excited about what the rest of 2009 has to offer to our shareholders.

Entering into new partnerships with private companies will continue to be a high priority to us. Each new private company partnership has three extremely meaningful benefits to our shareholders:

1. They reduce our overall risk and makes us less dependent on any one company;
2. They increase our earnings per share, provided we can acquire new cash flow streams at a lower multiple than what our shares are trading at; and
3. They increase the market float of our shares which will foster higher trading volumes and allow institutional investors to get involved in our story.

Our long term goal is to be fully diversified such that no single company represents more than 10% of our revenue. Given the lack of investments being made in this environment and given the unique niche that our structure allows us to tap into, we see a very real opportunity to accelerate this long term goal over the next two to three years.

### **A Focus on Sustainability**

In the future, when we are evaluating new opportunities and monitoring our current private company partner's, we will continue to use the criteria we've always believed in. That is, we'll focus on stable, sustainable cash-flow streams. We will look to bring forward companies that can not only survive any economic situation but also excel under them.

On this note, it is important to recognize the strength and guidance of our board of directors. Very few companies at our stage of development can boast the kind of board that our company has compiled. The wisdom and experience of our directors has not only been a great benefit in dealing with difficult situations such as the LMS royalty decrease, it is also invaluable in our review of potential new private company partnerships. We know that our next group of private company partners will need to be extremely strong. Your board and management will not rush into something just for the sake of growth.

I would like to thank our board, as well as our shareholders, for their support over the past year. Even in the most difficult times, the understanding and encouragement has been greatly appreciated. I look forward to making 2009 a year of positive milestones and prudent growth.

Steve King  
President and Chief Executive Officer

## **THE ALARIS STRUCTURE**

Developed in 2004 through consultation with some of North America's foremost legal, accounting and tax professionals, the Alaris structure is a truly unique way of investing in private companies. The structure allows Alaris to enter into partnerships with private companies that traditional private equity groups do not have access to – namely, well run, highly profitable, family owned businesses that are not for sale.

Traditional private equity holders make their returns by selling their shares in the companies in which they have invested, hopefully at a profit, five to seven years after their initial investment. This “exit” strategy relies on an event taking place that allows their shares to be sold. Historically this means: (i) the company gets put up for sale in its entirety; (ii) the company goes public through an initial public offering; or (iii) the company gets refinanced, typically with high levels of debt. For many private business owners, none of those three outcomes are desirable and for the investors, it relies on the state of the financial markets as to what return they make at that time. Alaris offers private, closely-held businesses the opportunity to raise equity capital without losing control of their business and without the need to face a forced exit several years down the road.

The Alaris structure results in the private companies with which we partner, paying monthly pre-tax distributions to Alaris in exchange for an upfront payment that can be taken out of the company in a tax efficient manner. This is not only a very tax effective corporate strategy for the private company and its owners, but it also enables Alaris (and therefore its shareholders) to earn returns in cash as opposed to relying on the re-sale of its interest to generate a return on investment. Further, Alaris has reduced volatility by making such distributions based on “top line” results of the company such as same store sales, revenue or gross profit as opposed to net income (a measure which traditional equity holders are typically subject to). This philosophy also benefits the private companies with which we partner as they are able to continue to manage, and own their businesses as they have always done.

In addition to those benefits above, Alaris' equity stake only tracks organic growth of an organization. New locations or acquisitions are not included in annual distribution re-sets and as a result, an active-growing enterprise will end up with far superior economics using Alaris as an equity partner compared to traditional equity providers which grow with all forms of growth in perpetuity. The end result of our innovative structure is a true win-win for our shareholders and the private companies with which we have partnered. Our shareholders receive a lower volatility cash return that is in priority to founder's equity. Our private company partners get access to tax efficient, and lower growth, equity all while retaining control of their businesses until the day they choose to exit on their own terms. The feedback from our current partners certainly supports the benefits that we expected when we initially developed this structure.

With the current demographic trend of aging baby boomers coming to retirement age, the need for partial liquidity events, estate planning and generational transfer options are important to the private company owners. Alaris is well situated to address these needs in that our structure specifically targets the group of entrepreneurs that would like to keep control of their businesses. The structure works well whether the private company is Canadian or is formed under the laws of another jurisdiction. Alaris management and our board of directors will continue to work diligently at diversifying our company by adding new private company partners each year.



**PRIVATE COMPANY PARTNERS**



**LifeMark Health** (“LifeMark”) is one of Canada’s largest private health care providers. The Company provides rehabilitation and physiotherapy services to private users, worker’s compensation and safety boards, private insurance companies and government agencies. Since their inception in 1979, LifeMark has posted stable results regardless of economic conditions or government insurance funding levels.

### Company Facts

Fiscal Year	06A	07A	08A
% Change in Same Clinic Sales	2.70%	3.10%	5.63%
Royalty as a % of EBITDA	62%	58%	55%
Royalty to Alaris (in millions)	\$6.49	\$7.25	\$7.47

#### LifeMark Management

Craig Gattinger, CEO  
 Ron Lowe, President  
 Dan McCrimmon, CFO

- Alaris initially partnered with LifeMark in December 2004 with the proceeds being used to complete a management buyout.
- Since 2004, capital has been provided to LifeMark three additional times with proceeds being used to acquire new clinics.
- LifeMark also completed a transaction to acquire MEDiChair with Alaris capital.
- LifeMark’s 2009 royalty, after the 5.63% increase from 2008, is 45% of Alaris’ revenue.
- The royalty paid to Alaris is adjusted based on the % change in same clinic sales from year to year.
- LifeMark’s royalty payment to Alaris has increased from between 2% to 5.6% per year since 2005.
- LifeMark currently has over 90 locations across Canada and has over 1600 dedicated healthcare staff, consultants and medical doctors.
- The majority of LifeMark’s facilities are free-standing outpatient physiotherapy clinics.
- LifeMark’s fiscal year-end is Dec. 31, 2009

LifeMark Health continues to show stability even in these difficult economic conditions. For the year ended December 31<sup>st</sup>, 2008, LifeMark’s same clinic sales grew by 5.63%, resulting in an increase to Alaris’ distribution from LifeMark for 2009 from \$7.5M to \$7.9M. This increase is slightly higher than normal for LifeMark and the industry in which it operates. This shows not only a stable, non-cyclical industry but also the quality of the management team LifeMark has in place. Overall, LifeMark grew total revenues by 27% and EBITDA by 8% in the year by successfully completing accretive acquisitions as well as organically by driving same clinic sales growth.

Going forward, LifeMark is expected to perform within a relatively tight band of same clinic sales growth similar to what we have experienced over the past four years. In addition, LifeMark also represents an opportunity for Alaris to grow this partnership by providing more capital for future accretive acquisitions. LifeMark has been successful in identifying a number of synergistic acquisition opportunities in a very fragmented business. Therefore, Alaris hopes to continue to grow their partnership with this excellent business.



LMS Reinforcing Steel Group ("LMS") is a British Columbia-based concrete reinforcing steel ("rebar") contractor and fabricator. LMS fabricates and installs rebar for construction projects primarily in British Columbia, Alberta and Saskatchewan. LMS is owned and operated by its founders who have collectively more than 50 years of experience in rebar installation. As an installer, LMS has the advantage of having very low levels of fixed costs and fixed assets which allows the company to maintain its royalty obligation to Alaris, even in this difficult environment, as it can adjust its labour force to match the activity level. LMS expects to benefit from the infrastructure spending that has been announced by the provincial governments of Western Canada over the coming years.

Fiscal Year	06A	07A	08A
% Change in Gross Profit	74%	42%	-23.3%
Royalty as a % of EBITDA	N/A	3%	24%
Royalty to Alaris (in millions)	N/A	\$ .82	\$ 7.11

**LMS Management**

Ron McNeil, Co-Chair and Founder  
Ivan Harmatny, Co-Chair and Founder  
Daryl Hebert, CFO  
Norm Streu, COO

**Company Facts**

- LMS was founded in 1980 by Ron McNeil and Ivan Harmatny.
- LMS has historical annual sales revenue of \$90M and is one of two major rebar contractors and fabricators in Canada.
- The capital provided to LMS was for partial liquidity purposes and was completed in two tranches. The first closed in April, 2007 and the second closed in December, 2007.
- LMS' royalty payment to Alaris gets adjusted based on \$ change in gross profit from year to year. This payment is 40% of Alaris's 2009 revenue.
- Fiscal 2008 saw LMS' first decline in gross profit since the company was formed.
- LMS' next fiscal year end is Sept 30, 2009.

The last six months have brought challenges to LMS, and its industry, which have not been seen in LMS' operating history. Despite this, the company has maintained a very strong balance sheet as well as an excellent reputation and relationship with its key customers. As an installer of rebar, LMS does not have large fixed costs, fixed assets or material amounts of debt. This has allowed LMS to remain profitable through these difficult times. LMS believes they hold an approximate 40% market share in their industry. Therefore, they feel the company is well-positioned to participate in the infrastructure spending that has been announced by provincial governments of Western Canada.

LMS has already seen several government infrastructure projects come into the bid process and expects to see those bids translate into active projects within the next few months. In addition, the high priced inventory that was a result of cancelled projects in late 2008 is now being placed into current, new and previously delayed or cancelled projects. This will allow LMS to increase their margins, and competitiveness, as they start to purchase steel at today's more favorable prices. While these factors will mostly affect LMS' September 2010 results, (and therefore Alaris' 2011 distribution) the resulting increase for our budgeted 2010 distributions from LMS is expected to be material. For the current fiscal year, the six month actual numbers to March 31<sup>st</sup> show gross profits for LMS that are approximately 8% ahead of the budget that we used to adjust our dividends. Therefore, based on LMS' current backlog of projects, we expect that this trend should continue through the entire year.



**MEDIchair** (“**MEDIchair**”) stores sell home medical equipment such as wheelchairs, scooters, lift chairs, bathroom safety products and home accessibility solutions, as well as, personal health care products. **MEDIchair** and its predecessor companies have been in business since 1985 and have offered **MEDIchair** franchises since 1988. **MEDIchair** currently has over 67 locations throughout Canada. **MEDIchair** is headquartered in Calgary, Alberta and is a wholly owned subsidiary of LifeMark.

### Company Facts

Fiscal Year	06A	07A	08A
% Change in Same Store Sales	5.3%	6.1%	4.1%
*Royalty as a % of EBITDA	10.9%	8.5%	8.4%
Royalty to Alaris (in millions)	\$1.01	\$1.06	\$1.15

**\*MEDIchair is a wholly owned subsidiary of LifeMark Health**

- The initial investment into **MEDIchair** was completed in September of 2005 with Alaris providing capital to LifeMark Health to purchase **MEDIchair**.
- **MEDIchair** is a franchise system therefore their royalty payment to Alaris is based on % change in same store sales from year to year and represents a 6.7% of Alaris’ revenue.
- **MEDIchair** has over 20 years of consecutive same store sales growth due to a great management team as well as benefiting from serving an aging North American population.
- Alaris has received between a 4% and 6% increase to its royalty payment from **MEDIchair** each year since 2005.
- **MEDIchair** is a wholly owned subsidiary of LifeMark Health therefore their financial information is included in LifeMark’s financial statements.
- **MEDIchair** uses LifeMark’s year end of December 31st for its operating results, but Alaris uses September 30<sup>th</sup> as the date to reset their royalty payment based on the same store sales results.

As a leader in the home healthcare franchise arena, **MEDIchair** continues to benefit from certain demographic trends in North America. With the aging baby boomer generation requiring more safety, mobility and care products, **MEDIchair** is ideally situated to contribute the same types of results that the company has posted since its inception. **MEDIchair** now boasts 20 consecutive years of same store sales growth after posting an increase of 4.12% for the year ending September 30<sup>th</sup>, 2008. We expect **MEDIchair** to continue this growth in the foreseeable future as the demographic trends bring even more demand for its products.



Management of End of the Roll (“EOR”) believes that EOR is Canada's largest dedicated flooring retailer. EOR targets "budget minded" customers who arrange for their own installation contractors and tend to purchase smaller areas of flooring than customers of full service retailers. The company has experienced stable sales during these challenging economic times because EOR does not supply flooring to new home builders. The discount renovation market is an area that can flourish as home owners stop building new houses and settle for maintenance work on their current residence. Alaris’ royalty revenue from EOR has increased between 4.5% and 8% per year over the life of the relationship.

### Company Facts

Fiscal Year	06A	07A	08A
% Change in Same Store Sales	7.9%	7.8%	4.5%
Royalty as a % of EBITDA	44%	40%	44%
Royalty to Alaris (in millions)	\$1.20	\$1.29	\$1.40

#### End of the Roll Management

Dwayne Ortynski  
 Urs Steinmann  
 Cory Ortynski  
 Gary Steinmann  
 Ted Cartier, CFO

- EOR was incorporated in 1990 and began offering franchise locations in 1994. Since then it has opened an average of 5 stores per year.
- Currently, EOR collects franchise royalties from over 54 locations nationwide.
- EOR’s royalty payment to Alaris is adjusted based on the audited change in same store sales from the franchise system from year to year.
- EOR completed the original transaction with Alaris in May 2005 for partial liquidity and generational transfer purposes.
- Royalty payments to Alaris from EOR account for 8.4% of Alaris’ 2009 revenue.
- EOR is the only dedicated flooring franchise system in Canada.
- EOR competes on price by using its purchasing power to buy inventory for all of its franchise stores at a discounted price.
- EOR’s next fiscal year end is April 30, 2009.

EOR has historically displayed a strong track record of growth and stability. Since its inception, the company has posted 17 straight years of same store sales growth. The recent economic downturn (a massive housing downturn in particular) has tested the assertion that the discount oriented renovation segment of the flooring industry is the most stable place to be. To that point, EOR has continued to show stability through this period and has several economic factors that are helping its business. Home owners are opting to spend small amounts of money on improving their current homes as opposed to building new ones. This can be seen by the incredible drop in new home building. In addition, the recent tax credit on home renovation expenses is ideally suited to EOR’s customer base and the size of typical purchases from its stores.

Alaris received a 4.5% increase in our distributions from EOR from its April 30, 2008 fiscal year end. Our next distribution adjustment should be announced by the end of August 2009, and will be based on their audited same store sales results for the fiscal year ending April 30, 2009. As with MEDChair, EOR is a franchise system whereby Alaris receives royalties on the royalties received from franchisees. Without any capital expenditures, minimal overhead and no debt, the revenue stream received from EOR is very predictable for our shareholders and we have been extremely pleased to be partnered with this company.

Consolidated Financial Statements of

**ALARIS ROYALTY CORP.**

Audited statements for the years ended  
**December 31, 2008 and 2007**

## **AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of Alaris Royalty Corp. (the "Entity") as at December 31, 2008 and 2007 and the consolidated statements of operations, deficit, and cash flows for each of the years then ended. These financial statements are the responsibility of the Entity's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Entity as at December 31, 2008 and 2007 and the results of its operations and its cash flows for each of the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants  
Calgary, Canada  
March 11, 2009

# ALARIS ROYALTY CORP.

## Consolidated Balance Sheets

	December 31,	
	2008	2007
<b>Assets</b>		
Current assets:		
Cash	\$ 1,743,936	\$ 1,599,339
Accounts receivable	11,307	20,207
Prepaid expenses	35,417	-
Future income taxes (note 10)	3,649,476	-
Investment tax credit receivable (note 10)	150,798	-
	<u>5,590,934</u>	<u>1,619,546</u>
Investment tax credit receivable (note 10)	6,441,259	-
Future income taxes (note 10)	25,528,693	-
Equipment (note 4)	90,458	141,883
Investments (note 3)		
Preferred LP units	98,124,642	98,124,642
Intangible assets	<u>13,243,384</u>	<u>13,416,616</u>
	111,368,026	111,541,258
	<u>\$ 149,019,370</u>	<u>\$ 113,302,687</u>
<b>Liabilities and Shareholders' Equity/(Deficit)</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 443,553	\$ 695,526
Dividends payable	1,094,620	-
Future income taxes (note 10)	42,932	-
Bank indebtedness (note 5)	-	25,000,000
Subordinated debt (note 5)	6,500,000	90,000,000
	<u>8,081,105</u>	<u>115,695,526</u>
Bank indebtedness (note 5)	25,000,000	-
Future income taxes (note 10)	3,136,988	-
Deferred credit (note 10)	27,497,912	-
Shareholders' equity/(deficit):		
Shareholder's capital (note 6)	98,278,747	150,000
Contributed surplus	264,472	-
Deficit	<u>(13,239,854)</u>	<u>(2,542,839)</u>
	85,303,365	(2,392,839)
Commitments (note 13)		
Subsequent event (note 14)		
	<u>\$ 149,019,370</u>	<u>\$ 113,302,687</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

\_\_\_\_\_  
Director

\_\_\_\_\_  
Director

# ALARIS ROYALTY CORP.

## Consolidated Statements of Operations and Deficit

	Year ended December 31,	
	2008	2007
<b>Revenues:</b>		
Royalties and distributions	\$18,934,364	\$ 11,368,381
Interest and other	96,380	18,091
	<u>19,030,744</u>	<u>11,386,472</u>
<b>Expenses:</b>		
Interest	8,881,023	5,419,619
Non-cash stock based compensation (Note 8)	8,232,105	-
Stock based compensation (Note 8)	102,306	-
Salaries and benefits	994,676	766,050
Legal and accounting fees	664,922	523,572
Corporate and office	520,047	306,881
Restructuring and financing (Note 1)	491,032	-
Financing	265,000	2,102,500
Depreciation and amortization	234,896	238,416
Write-off investments	-	185,802
	<u>20,386,007</u>	<u>9,542,840</u>
Net Income (Loss) before taxes	(1,355,263)	1,843,642
Future income tax expense (note 10)	1,696,676	-
Net Income (Loss) and other comprehensive income for the period	(3,051,939)	1,843,642
Deficit, beginning of period	(2,542,839)	(2,826,481)
Distributions to unitholders (note 7)	(2,166,000)	(1,560,000)
Dividends to shareholders (note 7)	(5,479,076)	-
Deficit, end of period	<u>\$ (13,239,854)</u>	<u>\$ (2,542,839)</u>
Earnings per share, basic	\$ (0.65)	\$ 1.23
Earnings per share, fully diluted	\$ (0.65)	\$ 1.23
Weighted average shares outstanding, basic	4,691,024	1,500,000
Weighted average shares outstanding, fully diluted	<u>4,691,024</u>	<u>1,500,000</u>

See accompanying notes to consolidated financial statements.

# ALARIS ROYALTY CORP.

## Consolidated Statements of Cash Flows

	Year ended December 31,	
	2008	2007
Cash provided by (used in):		
Operations:		
Net Income (Loss) for the period	\$ (3,051,939)	\$ 1,843,642
Add non-cash items:		
Depreciation and amortization	234,896	238,416
Write-off investments, deal costs	-	185,802
Stock based compensation (note 8)	8,232,105	-
Income tax expense	1,696,676	-
	<u>7,111,738</u>	<u>2,267,860</u>
Change in non-cash working capital	(278,512)	(1,789,105)
	<u>6,833,226</u>	<u>478,755</u>
Investing:		
Change in non-cash working capital	-	(278,972)
Purchase of investments	-	(51,156,995)
Disposals	-	8,893,100
Purchase of equipment	(10,239)	(2,682)
	<u>(10,239)</u>	<u>(42,545,549)</u>
Financing:		
Distributions to unitholders	(2,166,000)	(1,560,000)
Dividends to shareholders	(4,384,456)	-
New share capital	51,730,998	-
Proceeds from debt	-	131,850,000
Repayment of debt	(51,500,000)	(87,386,810)
Repurchase odd-lot shares	(358,932)	-
	<u>(6,678,390)</u>	<u>42,903,190</u>
Increase in cash	144,597	836,396
Cash, beginning of period	1,599,339	762,943
Cash, end of period	<u>\$ 1,743,936</u>	<u>\$ 1,599,339</u>

See accompanying notes to consolidated financial statements

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 1. Basis of presentation:

On July 31, 2008 Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") acquired Alaris Income Growth Fund L.P. (the "Partnership") (the "Acquisition"). After the Acquisition, the former owners of the Partnership held the largest percentage (although less than 50%) of the Class A Common Voting Shares and provided the Corporation's management, therefore the Partnership was deemed to be the acquirer for accounting purposes. Accordingly, the transaction has been accounted for as a reverse takeover. The share capital of the prior year and up to July 31, 2008 was that of the Partnership. Subsequent to the transaction date, the share capital was that of the Corporation.

Pursuant to the Acquisition, Alaris acquired: (i) the 750,000 issued and outstanding units (the "Alaris L.P. Units") of the Partnership held by Alaris Commercial Trust, a trust owned by the Partnership's largest owner, by the issuance of 666,667 voting common shares in the capital of Alaris ("Common Shares"); and (ii) all of the outstanding shares of Alaris IGF Corp. ("Alaris GP"), the general partner of the Partnership, from the holders thereof, being Alaris Commercial Trust and the management team of the Corporation, who purchased their shares in Alaris GP shortly before the Acquisition pursuant to the terms of employment stock options, by issuance of 666,668 non-voting common shares in the capital of Alaris Royalty Corp. ("Non-Voting Shares"). Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris L.P. Units.

On July 31, 2008, and prior to the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 Common Shares to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of \$12 per subscription receipt for aggregate gross proceeds of \$55,286,556 less share issue costs of \$3,622,225. In addition, the Corporation acquired \$83,500,000 of the Partnership's outstanding \$90,000,000 subordinated debt from 409790 Alberta Ltd. for \$51,500,000 in cash and the issuance of 2,666,667 Common Shares.

For the year ended December 31, 2008, the Corporation recorded restructuring and financing expenses of \$491,032 consisting of legal and tax due diligence costs related to the Acquisition that were expensed in the period.

Alaris will continue the business and operations of the Partnership. The Partnership's operations consist primarily of investments in operating entities, typically in the form of long-term license and royalty arrangements or preferred limited partnership interests.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

### (a) Investments:

Investments result from: (1) the direct or indirect purchase of intellectual property from various organizations/vendors and the subsequent license-back of the right for exclusive use to the vendor; or (2) the direct or indirect subscription for a preferred interest in a limited partnership; which interests provide a monthly distribution that is adjusted annually on the basis of a formula linked to revenues, gross margin, same-store sales, or other "top-line" measures as outlined in each of the respective agreements. Investments are initially recognized and measured at cost, including acquisition costs incurred after a letter of intent is signed, such as financial and legal due diligence fees relating directly to the purchase.

Investments that are a royalty structure are being amortized on a straight-line basis over an 80-year period and individually reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

Investments that are a preferred interest in a limited partnership are not amortized but are assessed for objective evidence of impairment at each balance sheet date. When there is objective evidence that the investment has been impaired, and there is a decline in the recoverable amount below cost that is other than temporary, the amount of the impairment loss is the difference between the carrying amount of the investment and its fair value. Fair value is estimated using discounted cash flows.

### (b) Equipment:

Equipment is recorded at cost. Depreciation is provided for over the estimated useful lives of assets on a declining balance basis.

### (c) Revenue recognition:

Revenue consists of amounts generated by licensing intellectual property or distributions from preferred interests in a limited partnership and is recognized when the monthly payments become due and are considered collectible.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

## 2. Significant accounting policies (continued):

### (d) 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
Preferred LP units	Available for sale	Cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Subordinated debt	Other liabilities	Amortized cost

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 has no embedded derivatives.

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.

### (e) Income taxes:

The Corporation follows the asset and liability method of accounting for income taxes. The Corporation is a taxable entity under the Income Tax Act (Canada).

### (f) Stock-based compensation:

The Corporation accounts for stock-based compensation in accordance with CICA Handbook section 3870 "Stock-Based Compensation and Other Stock-Based Payments". This standard requires that stock-based payments to non-employees and direct awards of stock to employees and non-employees are accounted for using a fair-value method of accounting.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

## 2. Significant accounting policies (continued):

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Significant management estimates include valuation of investments and collectability of future royalties and distributions.

## 3. Investments:

December 31, 2008	Acquisition Cost	Capitalized Costs	Accumulated Amortization	Net Cost
Lifemark Health	\$ 46,500,000	\$ 291,362	\$ –	\$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	97,500,000	624,642	–	98,124,642
End of the Roll	7,200,000	74,920	(340,971)	6,933,949
MEDchair	6,500,000	83,758	(274,323)	6,309,435
Total Intangible Assets	13,700,000	158,678	(615,294)	13,243,384
	\$ 111,200,000	\$ 783,320	\$ (615,294)	\$ 111,368,026
December 31, 2007				
Lifemark Health	\$ 46,500,000	\$ 291,362	\$ –	\$ 46,791,362
Lower Mainland Steel	51,000,000	333,280	–	51,333,280
Total Preferred LP Units	97,500,000	624,642	–	98,124,642
End of the Roll	7,200,000	74,920	(250,036)	7,024,884
MEDchair	6,500,000	83,758	(192,026)	6,391,732
Total Intangible Assets	13,700,000	158,678	(442,062)	13,416,616
	\$ 111,200,000	\$ 783,320	\$ (442,062)	\$ 111,541,258

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

### 3. Investments (continued):

Royalties and distributions:

	Year ended	
	December 31,	
	2008	2007
Lifemark Health	\$ 7,465,464	\$ 7,250,066
Lower Mainland Steel	8,904,210	1,276,576
End of the Roll	1,434,137	1,355,426
MEDlchair	1,130,553	1,062,147
Palliser Lumber	—	424,166
	<u>\$18,934,364</u>	<u>\$ 11,368,381</u>

#### I – Preferred LP Units

##### (a) Investment in LifeMark Health Limited Partnership ("LifeMark Health"):

The Corporation holds 900,000 class A preferred partnership units ("LifeMark A Units") and 4,000,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). The 900,000 LifeMark A Units and 2,600,000 of the LifeMark B Units were acquired on December 30, 2004 for an aggregate acquisition cost of \$35 million. Alaris acquired 150,000 of the LifeMark B Units from LifeMark Health on June 15, 2005 for an aggregate acquisition cost of \$1.5 million; acquired 250,000 of the LifeMark B Units from LifeMark Health on October 1, 2005 for an aggregate acquisition cost of \$2.5 million; and acquired 750,000 of the LifeMark B units from LifeMark Health on August 1, 2006 for an aggregate acquisition cost of \$7.5 million.

Pursuant to the LifeMark Health partnership agreement (the "LifeMark Partnership Agreement") dated December 30, 2004, the LifeMark A Units entitle the Corporation to receive an annual preferred distribution (the "A Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units in a minimum amount of \$1.46 million. The minimum amount is adjusted in each subsequent fiscal year to the greater of (i) \$1.46 million; and (ii) the A Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase in LifeMark Health's Same Clinic Sales (as defined in the LifeMark Partnership Agreement), being generally LifeMark Health's annual revenue from clinics that have been open for at least two years, for the previous year. Distributions on the LifeMark A Units are receivable monthly.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

### 3. Investments (continued):

(a) Investment in LifeMark Health Limited Partnership ("LifeMark Health"): (continued)

Pursuant to the LifeMark Partnership Agreement, the LifeMark B Units entitle the Corporation to receive an annual preferred distribution (the "B Unit Preferred Distribution") in priority to distributions on LifeMark Health's other partnership units, other than the LifeMark A Units, in an amount equal to the B Unit Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in LifeMark Health's Same Clinic Sales for the previous fiscal year. Distributions on the LifeMark B Units are receivable monthly.

LifeMark Health has the option at any time after December 30, 2009 (i) to repurchase all (but not less than all) of the LifeMark A and B Preferred Units at an aggregate price equal to the total distributions for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the aggregate purchase price of the Units (the "Repurchase Right").

(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. Commencing December 21, 2007 the Corporation was entitled to a base preferred distribution of \$8.5 million over the next twelve months. The base is in two distinct portions and is adjusted at two points (January 1<sup>st</sup> and April 1<sup>st</sup>) 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. The first portion was originally \$2.5 million and was increased to \$3.04 million effective April 1, 2008. The second portion was originally \$6 million and will be adjusted effective January 1, 2009 once LMS' audited financial statements have been completed. Distributions on the LMS Units are paid 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 price equal to 8.5 times the then current annual distributions subject to a minimum of the aggregate purchase price of the LMS Units (the "Repurchase Right").

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 3. Investments (continued):

II – Intangible Assets

(c) 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, proprietary system for operating franchises and all goodwill associated with its business. 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 an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into End of the Roll (the "Repurchase Right").

If a Material Breach (as defined in the License Agreement) occurs under the ER License Agreement, End of the Roll is required to pay to the Corporation the present value (calculated using a discount rate of 5.10% per annum) of the initial Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may elect to terminate the ER License Agreement.

(d) Investment in MEDlchair Ltd. ("MEDlchair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDlchair IP") from MEDlchair for an aggregate purchase price of \$6.5 million (the "MEDlchair Investment") pursuant to an acquisition agreement (the "MEDlchair Acquisition Agreement") dated September 12, 2005. The MEDlchair IP includes MEDlchair's trademarks, trade names, website, proprietary system for operating franchises and all goodwill associated with its business. The MEDlchair IP was subsequently licensed to MEDlchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDlchair License Agreement") dated September 12, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the 12-month period from October 1, 2006 to September 30, 2007 was \$1.053 million. The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty in MEDlchair's fiscal year just ending by the percentage change in Same Store Royalties (as defined in the MEDlchair License Agreement), being generally the

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

### 3. Investments (continued):

(d) Investment in MEDlchair Ltd. ("MEDlchair"): (continued)

total annual royalties received by MEDlchair from all franchisees whose retail stores have been opened for at least two years over the fiscal year immediately preceding the fiscal year just ending, subject to a maximum percentage change in any year of 10%.

If a Material Breach (as defined in the MEDlchair License Agreement) occurs under the License Agreement, MEDlchair is required to pay to the Corporation the present value (calculated using a discount rate of 5.5% per annum) of the then current Royalty for 10 years from the date of the Material Breach together with any outstanding Royalty Payments and the Corporation may, terminate the License Agreement.

MEDlchair has the option at any time after October 1, 2010 to repurchase the MEDlchair IP (and terminate the Royalty) at an aggregate price equal to the total royalty for the then current fiscal year multiplied by the then current trading multiple of Alaris Royalty Corp. subject to a minimum of the amount invested into MEDlchair (the "Repurchase Right").

(e) Investment in Palliser Lumber Sales Ltd. ("Palliser Lumber"):

On April 12, 2007, the Corporation sold its investment in Palliser at its net book value to a company controlled by its largest unitholder.

### 4. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of \$279,927 (December 31, 2007 - \$218,263).

### 5. Debt

The Corporation has a \$25,000,000 secured revolving credit facility with a syndicate of Canadian chartered banks. Interest is payable at the lenders' prime rate plus 3.00% (6.50% at December 31, 2008). The term out date under the credit facility is December 18, 2009. If an extension is not received by December 20, 2009, the facility will be repaid in thirty-six equal monthly installments commencing January 20, 2010, therefore, none of the debt is shown as a current liability in the financial statements. There are financial covenants under this facility. The Corporation is in compliance with each of the covenants based on a letter received by the Corporation subsequent to December 31, 2008 from the lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants. Bank fees of \$327,500 were paid in the year ended December 31, 2008 (2007 - \$437,500) as a result of the restructuring described in note 1 and the renewal of the facility in December 2008.

The Corporation has a \$6,500,000 unsecured demand facility with a company controlled by its largest shareholder. The loan was originally \$90,000,000 and on July 31, 2008, \$51,500,000 was repaid and \$32,000,000 was purchased for shares of the Corporation. Interest is payable at 13.00% per annum.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

## 6. Shareholders equity:

The Corporation has authorized, issued and outstanding, 8,455,169 voting and 666,668 non-voting common shares.

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2007	1,500,010	\$ 150,000
Exercise of options to purchase 50% of existing units	–	8,000,000
Repurchase and cancellation of Partnership shares (note 1)	(1,500,010)	–
Issued to former Corporation shareholders (note 1)	541,675	6,500,000
Issued by private placement	4,607,213	55,286,556
Private placement costs	–	(3,622,225)
Income tax benefit of private placement costs	–	289,070
Issued in exchange for repayment of debt	2,666,667	32,000,000
Issued for purchase of units (note 1)	666,667	–
Transfer from units of Partnership to non-voting shares of the Corporation	–	(8,000,000)
Repurchase odd-lot shares	(29,911)	(358,932)
Issued in lieu of dividends on restricted share units	2,858	34,278
Voting shares	8,455,169	90,278,747
Non-voting shares	666,668	8,000,000
	9,121,837	\$ 98,278,747

## 7. Dividends and Distributions:

For each month from August through December 2008, the Corporation had declared a dividend of \$0.12 per voting and non-voting common share (\$5,479,076 in aggregate).

Prior to the reorganization and for the year ended December 31, 2008, the Partnership paid distributions to unitholders of \$1.44 per unit, \$2,166,000 in aggregate (2007 - \$1.04 per unit, \$1,560,000 in aggregate).

## 8. Stock-based compensation:

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 591,662 and issued 379,400 RSUs to management and Directors on October 29, 2008. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (285,650) do not vest until the end of the three-year period and are subject to certain performance conditions relating to operating cash flow per share.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 8. Stock-based compensation: (continued)

The stock-based compensation expense relating to the RSU Plan is based on a \$12 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 accordance with the Corporation's dividend policy. Payments to management are split evenly between cash and common shares.

For the year ended December 31, 2008, the Corporation incurred stock-based compensation expenses of \$8,334,411 which includes: \$7,933,350 (non-cash expense) for the difference in the exercise price and fair value of management options that were granted and exercised into shares of Alaris GP prior to the Acquisition; \$252,933 (non-cash expense) for the 2008 portion of the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan; \$85,167 for payments to staff and directors in lieu of dividends under the RSU Plan; \$51,417 (non-cash expense) for shares issued in lieu of dividends under the RSU Plan; and \$11,544 (non-cash expense) for the 2008 amortization of the fair value of outstanding stock options. The Corporation has reserved 253,569 and issued 224,150 options that vest over a four-year period and expire in five years.

---

Dividend yield	12%
Expected volatility	38%
Risk free rate of return	2.73%
Expected option life	5 years
Weighted average value per option	\$ 1.24

---

## 9. Financial risk management

Effective January 1, 2008, the Corporation adopted CICA sections 3862 Financial Instrument Disclosure and 3863 Financial Instrument Presentation and the information regarding the enhanced disclosure is set out below.

### (a) Credit risk and other price risk:

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Cash flow from portfolio investments are 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.

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

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 9. Financial risk management (continued):

investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail.

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 counterparties, future royalty and distributions 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. As at December 31, 2008, all amounts receivable for the year ended December 31, 2008 had been received.

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 carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2008 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, 2008.

### (b) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they are due. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Corporation's reputation.

### (c) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Corporation's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns.

#### *Foreign currency exchange rate risk and commodity price risk*

The Corporation does not have any direct exposure to foreign currency exchange rate risk or commodity price risk. The Corporation had no forward exchange rate contracts or commodity price contracts in place as at or during the year ended December 31, 2008.

#### *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

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 9. Financial risk management (continued):

### (c) Market risk (continued):

a floating rate of interest. As at December 31, 2008, if interest rates had been 1% lower with all other variables held constant, net income for the period would have been \$250,000 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, 2008.

### (d) Capital management:

Effective January 1, 2008, the Corporation adopted CICA section 1535 Capital Disclosures. Information regarding the enhanced disclosure is set out below.

The Corporation has entered into a series of agreements that resulted in the Corporation becoming a publicly owned company. As a result of the recent change in circumstances of the Corporation's capital, management of the Corporation has not yet determined the long-term objectives or policies that will be applicable for capital management in future periods.

### (e) Fair value of financial instruments:

The Corporation's financial instruments as at December 31, 2008 and December 31, 2007 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, bank indebtedness and subordinated debt. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity.

Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The subordinated debt is due to the Corporation's largest shareholder and, accordingly, the fair value is not readily determinable. The fair values of the available for sale investments are not readily determinable with sufficient reliability due to the lack of similar instruments in the market.

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

## 10. Income taxes

Income tax expense is calculated by using the combined federal and provincial statutory income tax rates. Prior to the restructuring on July 31, 2008, the entity was structured as a 100% flow-through entity and taxes were payable only by the unitholders. The provision for income tax differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

	2008
Earnings (loss) before income taxes	(1,355,263)
Combined federal and provincial statutory income tax rate	29.50%
Expected income tax provision	(399,803)
Impact of restructuring	1,474,243
Non-deductible expense (recoveries)	2,435,543
Increase in valuation allowance	1,874,253
Drawdown of deferred credit	(3,065,037)
Income allocated to former partners	(638,970)
Rate changes and other	16,447
	\$ 1,696,676

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

	2008
Future income tax assets (liabilities):	
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	\$ 33,114,722
Equipment	84,893
Share issue costs	1,027,439
Intangible assets	(1,532,908)
Investment tax credits	(1,731,905)
	30,962,241
Valuation allowance	(4,963,992)
	\$ 25,998,249

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

## 10. Income taxes (continued)

The future income taxes as presented on the balance sheet are comprised of:

	2008
Current assets	\$ 3,649,476
Long-term assets	25,528,693
Current liabilities	(42,932)
Long-term liabilities	(3,136,988)
	<u>\$ 25,998,249</u>

As at December 31, 2008, the Corporation has non-capital losses available to reduce income tax in future years that expire from time to time as follows:

2009	\$ 15,372,621
2013	31,014,281
2014	21,537,689
2025 and later	3,381,931
	<u>\$ 71,306,522</u>

As at December 31, 2008, the Corporation has unused federal income tax credits which expire from time to time as follows (based on future earnings estimates, a portion of the tax credits will not be recognized):

2009	\$ 150,798
2010	1,623,342
2011	1,935,046
2012	1,295,097
2013	3,296,237
2014	1,840,597
2025	647,624
Less tax credits not recognized	(4,196,684)
	6,592,057
Less current portion	(150,798)
	<u>\$ 6,441,259</u>

# ALARIS ROYALTY CORP.

Notes to consolidated Financial Statements

Years ended December 31, 2008 and 2007

---

## 10. Income taxes (continued)

As at December 31, 2008, the Corporation has a deferred credit of \$27,497,912:

---

Opening deferred credit	\$ 30,562,949
Drawdown of deferred credit	(3,065,037)
	<hr/> \$ 27,497,912

---

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 \$58,131,473.

## 11. Recent accounting pronouncements not yet adopted:

The CICA's Accounting Standards Board confirmed the changeover from Canadian GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The impact on the Corporation is currently being reviewed.

## 12. Related party transactions:

The Corporation has a \$6.5 million demand loan with a company owned by its largest shareholder. For the year ended December 31, 2008, the Corporation paid interest of \$7,162,646 to this company (Year ended December 31, 2007 - \$352,603).

On July 31, 2008 the Corporation completed the Acquisition of Alaris LP. In connection with the Acquisition the Corporation issued 3,111,111 Common Shares and paid \$51,500,000 in cash to entities owned or controlled by a director, and the largest shareholder, of the Corporation, in exchange for \$83,500,000 of Alaris LP's subordinated debt and 750,000 units of Alaris LP. In addition, the Corporation issued 666,668 Non-Voting Shares to the management of the Corporation, in exchange for the 666,667 shares of Alaris GP, the general partner of Alaris LP, held by them.

## 13. Commitments:

The Corporation leases its office space under a five-year lease that commenced on July 1, 2004 ending June 30, 2009. The lease payments over the remaining life of the lease are \$45,174.

## 14. Subsequent event:

On January 23, 2009, the Corporation signed a conditional offer to lease new office space and on March 4, 2009, the offer to lease was amended and all conditions were waived. The Corporation expects to execute the lease on or before March 25, 2009. The lease is for seven years and the annual payments will be approximately \$135,000.

## MANAGEMENT'S DISCUSSION & ANALYSIS

### Year ended December 31, 2008

This management's discussion and analysis (MD&A) should be read in conjunction with the audited financial statements for Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") for the years ended December 31, 2008 and December 31, 2007. The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 "Risk Factors". This MD&A also refers to certain non-GAAP measures, including EBITDA and normalized EBITDA, to assist in assessing the Corporation's financial performance. The terms EBITDA and normalized EBITDA (collectively the "Non-GAAP Measures") are financial measures used in this MD&A that are not standard measures under GAAP. The Corporation's method of calculating Non-GAAP Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-GAAP 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 net income (loss).

**EBITDA** refers to net earnings (loss) determined in accordance with GAAP, 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 Acquisition and include non-cash stock option and other transaction related costs.

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

## **OVERVIEW**

On July 31, 2008, Alaris completed the acquisition (the "Acquisition") of Alaris Income Growth Fund L.P. ("Alaris L.P."), a partnership that was indirectly owned by Alaris Income Growth Fund (the "Fund") and management. Alaris has continued the business and operations of Alaris L.P. For accounting purposes, the acquisition has been accounted for as a reverse take-over with Alaris L.P. being considered the acquiring entity.

Immediately prior to the closing of the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 common shares (on a post consolidation basis) to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of \$12 per subscription receipt for aggregate gross proceeds of \$55,286,556 before share issue costs of \$3,622,225.

The Corporation earns its revenues by investing capital in private businesses (individually, a "Finance Group Member" and collectively the "Finance Group"). The Corporation's revenue consists of royalties and preferred distributions received in regular monthly payments that are contractually agreed to between the Corporation and each Finance Group Member. These payments are set for twelve months at a time and adjusted annually based on the performance of each Finance Group Member'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 seven employees. Interest costs have historically been significant, as the Corporation's transactions were initially funded entirely by debt until the changes to the capital structure on July 31, 2008 resulting from the Acquisition and the subscription receipt financing.

## **RESULTS OF OPERATIONS**

### **Year Ended December 31, 2008 Compared to Year Ended December 31, 2007**

The results for the year ended December 31, 2008 reflect full royalties and distributions from each of the four transactions with Finance Group Members that closed prior to December 31, 2007. In the period, revenues from these transactions totaled \$18,934,364 and were received from LifeMark Health Limited Partnership ("LifeMark Health") (\$7,465,464), Lower Mainland Steel Limited Partnership ("Lower Mainland Steel") (\$8,904,210), End of the Roll Carpet & Vinyl ("End of the Roll") (\$1,434,137) and MEDIchair Ltd. ("MEDIchair") (\$1,130,553). During the year ended December 31, 2007, revenues from the Finance Group were \$11,368,381 and were received from LifeMark Health (\$7,250,066), Lower Mainland Steel (\$1,276,576), End of the Roll (\$1,355,426), MEDIchair (\$1,062,147) and Palliser Lumber (\$424,166). The increase over the prior year was because the Corporation did not close a major portion of the Lower Mainland Steel transaction until the end of 2007. Additionally, each of LifeMark Health (3.1%), End of the Roll (7.8%) and MEDIchair (6.1%) recorded same store sales increases in 2008 that increased the annual royalty or distributions. The investment in Palliser Lumber was sold at its original cost early in the second quarter of 2007.

Interest expense of \$8,881,023 was significantly higher in 2008 compared to \$5,419,619 in 2007 because of a change in capital structure and the timing of transactions with Finance Group Members. In December 2007, Alaris L.P. refinanced its debt facilities concurrently with another \$36 million transaction with Lower Mainland Steel. The refinancing reduced senior debt to \$25 million and a company owned by Alaris L.P.'s then largest unitholder provided a \$90 million subordinated debt facility at 13% per annum interest compared to \$75 million of senior debt outstanding at an interest rate of the lenders' prime rate plus 0.50% during most of 2007. The subordinated debt was reduced to \$6.5 million on July 31, 2008.

The Corporation recorded \$8,232,105 in non-cash stock based compensation expenses in 2008. \$7.9 million related to the difference in the exercise price and fair value of management options that were granted and exercised into shares of Alaris GP prior to the Acquisition. The Corporation also recorded non-cash stock-based compensation expenses of \$11,544 to recognize the fair value of outstanding stock options, \$252,933 to amortize the 2008 portion of the fair value of the Restricted Share Unit Plan (the “RSU Plan”) and \$51,417 for shares issued to management under the RSU Plan.

Salaries and benefits were 30% (\$230,000) higher for the year ended December 31, 2008 as the Corporation increased salaries by 5% effective January 1, 2008, paid staff bonuses of \$60,000 and paid a management bonus of \$125,000 on July 31, 2008.

Corporate and office expenses were \$215,000 higher in 2008 and include office rent, travel and corporate administrative expenses. Corporate administrative expenses increased significantly starting in August due to new public company costs that included preparing and distributing corporate documents including information circulars and press releases as well as new investor agent fees. Legal and accounting fees were \$665,000 for the period, up from \$524,000 in 2007. The increase is due to a significant increase in costs related to regulatory requirements leading up to and after the Acquisition that include preparing quarterly financial statements and legal fees related to the information circulars filed in the second half of 2008.

Amortization and depreciation include the amortization of the Finance Group Members and the depreciation of capital assets. The Corporation amortizes its intangible assets over the term of the transaction and depreciates capital assets according to GAAP. 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 depreciation of \$61,663 and amortization of \$173,233 in 2008, similar to amounts recorded in 2007.

The Corporation recorded a net loss of \$3.0 million, EBITDA of \$7.8 million and normalized EBITDA of \$16.2 million for the year ended December 31, 2008 compared to \$1.8 million of net income and \$7.5 million of EBITDA and normalized EBITDA for the year ended December 31, 2007. The increase in normalized EBITDA and net income is almost entirely attributable to the significant increase in distributions from Lower Mainland Steel in 2008. Adjustments to net income include \$1.7 million in income tax expense due mostly to the difference between the book value and the undepreciated capital cost of the transactions, and \$8.2 million in non-cash stock-based compensation expenses and transaction costs relating to the Acquisition.

<b>Reconciliation of Net Income to EBITDA (thousands)</b>	<b>Year ending Dec 31, 2008</b>	<b>Year ending Dec 31, 2007</b>
Net Income (Loss)	(\$3,052)	\$1,844
Adjustments to Net Income:		
Amortization	235	239
Interest	8,881	5,420
Income tax timing difference expense	1,696	-
<b>EBITDA</b>	<b>\$7,760</b>	<b>\$7,503</b>
Normalizing Adjustments:		
Transaction related costs:		
Non-cash stock-based compensation	7,933	-
Tax and financial diligence costs	491	-
<b>Normalized EBITDA</b>	<b>\$16,184</b>	<b>\$7,503</b>

Effective July 31, 2008, Alaris began paying monthly dividends. Dividends were declared for August, September, October, November and December at \$0.12 per common share (voting and non-voting) totalling \$5,479,076 for the year. Prior to the Acquisition, Alaris L.P. paid \$1.44 per unit in distributions (\$2,166,000) to its unitholders in 2008. For the year ended December 31, 2007, there were no regular distributions paid and Alaris L.P. paid a one-time special distribution of \$1.04 per unit (\$1,560,000).

Cash held at December 31, 2008 of \$1.7 million was to satisfy the dividend declared in December 2008 (payable January 15<sup>th</sup>, 2009) and trade payables leaving residual working capital of approximately \$250,000.

Shareholders' capital includes the net proceeds from the \$55 million raised in the private placement that closed July 31, 2008, \$8 million of non-voting common shares owned by management as a result of options exercised on July 31, 2008 and \$32 million of subordinated debt that was purchased for voting common shares at the private placement issue price of \$12.00 per share also on July 31, 2008.

The Corporation has a \$25 million senior debt facility with a two member Canadian bank syndicate, which was fully drawn at December 31, 2008. Interest is paid monthly at the lenders' prime rate plus three percent per annum (6.5% at December 31, 2008). At December 31, 2008, the Corporation also had a \$6.5 million demand subordinated debt facility from a company owned by the Corporation's largest shareholder. Interest is paid monthly at 13% per annum.

The Corporation has recorded a \$25 million future income tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections. An offsetting liability has been recorded as a deferred charge for the amount of the tax asset less the fair value of the shares held by the shareholders of the Corporation prior to the July 31, 2008 transaction.

### **Three Months Ended December 31, 2008 Compared to Three Months Ended December 31, 2007**

Revenues for the three months ended December 31, 2008 reflect full royalties and distributions from transactions involving each of the four Finance Group Members that closed prior to December 31, 2007. In the period, revenues from the Finance Group totaled \$4,756,694 and were received from LifeMark Health (\$1,866,366), Lower Mainland Steel (\$2,259,750), End of the Roll (\$346,638) and MEDIchair (\$283,940). In the three months ended December 31, 2007, revenues from the Finance Group were \$2,886,617 and were received from LifeMark Health (\$1,820,955), Lower Mainland Steel (\$462,646), End of the Roll (\$331,870) and MEDIchair (\$271,146). The increase over the prior period was because Alaris L.P. did not close the final portion of the Lower Mainland Steel transaction until late in 2007. Additionally, each of LifeMark Health (3.1%), End of the Roll (7.8%) and MEDIchair (6.1%) recorded same store sales increases in 2008 that increased the annual royalty or distribution.

Interest expense of \$602,779 was significantly lower in the fourth quarter of 2008 compared to \$1,552,018 in the fourth quarter of 2007 because of a change in capital structure. In December 2007, Alaris L.P. refinanced its debt facilities concurrently with an additional \$36 million transaction with Lower Mainland Steel. The refinancing reduced senior debt to \$25 million and a company owned by Alaris L.P.'s then largest unitholder provided a \$90 million subordinated debt facility at 13% per annum interest compared to \$75 million of senior debt outstanding at an interest rate of the lenders' prime rate plus 0.50% during most of the fourth quarter in 2007. The \$90 million of subordinated debt was reduced to \$6.5 million on July 31, 2008 as part of the Acquisition of Alaris L.P and utilizing the equity funds raised in July 2008, significantly reducing the debt levels of the Corporation for the fourth quarter of 2008.

In the fourth quarter, the Corporation recorded \$401,061 in non-cash stock based compensation expenses in 2008 that included \$11,544 to recognize the fair value of outstanding stock options; \$252,933 to amortize the 2008 portion of the fair value of the Restricted Share Unit Plan (“RSU Plan”); \$85,167 in payments in lieu of dividends under the RSU Plan; and \$51,417 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan.

Salaries and benefits were 5.8% higher (\$226,866) for the three months ended December 31, 2008 as Alaris increased salaries by 5% effective January 1, 2008.

Corporate and office expenses were \$149,790 higher compared to the prior year period and include office rent, travel and corporate administrative expenses. Corporate administrative expenses increased significantly in the fourth quarter due to new public company costs that included a repurchase of odd-lot shares that included the filing of an information circular, and significant new transfer agent fees.

The Corporation recorded net income of \$2.5 million and EBITDA of \$3.3 million for the three months ended December 31, 2008 compared to a net loss of \$1.5 million and \$69,000 of EBITDA for the three months ended December 31, 2007. The increase in net income and EBITDA is attributable to the significant increase in distributions from Lower Mainland Steel increasing net income in 2008 as well as a \$1.5 million financing fee decreasing net income December 2007 to set up the subordinated debt facility.

<b>Reconciliation of Net Income to EBITDA (thousands)</b>	<b>3 months ending Dec 31,2008</b>	<b>3 months ending Dec 31,2007</b>
Net Income (Loss)	\$2,491	\$(1,543)
Adjustments to Net Income:		
Amortization	59	60
Interest	603	1,552
Income taxes	153	
<b>EBITDA</b>	<b>\$3,306</b>	<b>\$69</b>

Effective July 31, 2008, Alaris began paying monthly dividends. Dividends were declared and paid for October, November and December at \$0.12 per common share (voting and non-voting) totalling \$3,283,347 for the quarter.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Corporation has a fully-drawn \$25 million senior credit facility provided by two Canadian chartered banks and a \$6.5 million subordinated debt demand facility provided by a company owned by the Corporation’s largest shareholder (see “Transactions with Related Parties”). The senior credit facility is a 364-day revolving loan that is due December 19, 2009. The facility carries a three-year term out option in the event the loan is not renewed. Therefore at December 31, 2008, none of the facility is shown as a current liability in the financial statements. The senior facility was renewed on December 20, 2008 and the variable interest rate was increased by 1% per annum to the Canadian prime interest rate plus 3% as a result of current economic conditions. At December 31, 2008, the Corporation met all of its covenants as required by the senior credit facility.

The Corporation has 9.122 million common shares outstanding at December 31, 2008 including the voting common shares issued pursuant to a private placement that closed on July 31, 2008, which raised \$55 million in equity priced at \$12 per share. The net proceeds of the private placement (\$51.5 million), as well as the issue of voting common shares of the Corporation (valued at \$32 million) were used to pay down the subordinated debt facility to \$6.5 million. The Corporation had working capital of approximately \$250,000 at December 31, 2008, which is sufficient for the Corporation’s needs.

## 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, 2008.

### 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, 2008. 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, 2008.

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 credit facilities described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its lease for office space. The Corporation's lease on its current location expires in June 2009 and subsequent to December 31, 2008, the Corporation agreed to a new seven-year lease at a new location commencing July 2009. Annual lease payments are currently \$90,000 and the new location annual leasing costs will be approximately \$135,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	0	0	0	0	0
Office lease	45,174	45,174	0	0	0
Other long-term obligations	0	0	0	0	0
Total Contractual Obligations	45,174	45,174	0	0	0

## **TRANSACTIONS WITH RELATED PARTIES**

In December 2007, Alaris L.P. borrowed \$90 million from a company owned by Mr. Clay Riddell, its then largest unitholder. The loan included a fee of \$1.5 million (1.67%) and the annual interest rate is fixed at 13%. On July 31, 2008, the Corporation used proceeds from the transaction described in the “Overview” section of this MD&A to reduce the outstanding debt to this company to \$6.5 million. For the twelve months ended December 31, 2008, the Corporation paid interest of \$7,162,646 to this company (2007 - \$352,603).

Pursuant to the transaction described in the “Overview” section of this MD&A, the Corporation acquired (i) the 750,000 issued and outstanding units (the “Alaris L.P. Units”) of the Partnership owned by an entity owned by Mr. Riddell, by the issuance of 666,667 voting common shares in the Corporation; and (ii) all of the outstanding shares of Alaris IGF Corp. (“Alaris GP”), the general partner of the Partnership, from the holders thereof, which included Messrs King, Driscoll and Reid, officers, and in the case of Mr. King, a director of the Corporation, by issuance of 666,668 non-voting common shares in the Corporation. Alaris GP owns 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Acquisition the Corporation acquired directly and indirectly 100% of the issued and outstanding Alaris L.P. Units.

## **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 and future income tax amounts.

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.

## **NEW ACCOUNTING POLICIES**

Effective January 1, 2008, the Corporation adopted CICA sections: 3862 Financial Instrument Disclosure; section 3863 Financial Instrument Presentation and section 1535 Capital Disclosures. Specifically, section 3862 requires disclosure of the significance of financial instruments on the Corporation's financial statements and outlines disclosure of qualitative and quantitative information regarding exposure to risks from financial instruments. Section 1535 requires additional disclosures about the objectives, policies and processes used by the Corporation to manage its capital. During the year ended December 31, 2008, the Corporation entered into a series of agreements that resulted in the Corporation becoming a publicly owned company. As a result of the recent change in circumstances of the Corporation's capital, management of the Corporation has not yet determined the long-term objectives or policies that will be applicable for capital management in future periods.

## FINANCIAL INSTRUMENTS AND OFF BALANCE SHEET ARRANGEMENTS

As at December 31, 2008, the Corporation had not entered into any derivative financial instruments nor did it have any off balance sheet arrangements.

## RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The CICA's Accounting Standards Board confirmed the changeover from GAAP to IFRS (International Financial Reporting Standards) will be required for publicly accountable enterprises beginning on January 1, 2011. The impact on the Corporation is currently being reviewed. The Corporation has prepared an IFRS changeover plan that identifies the key accounting policies affected by the change, the impact on the financial statements and any financial reporting obligations, critical dates leading up to January 1, 2011, and an assessment of risk or importance of each key element. The Corporation has identified valuation of Preferred LP Units as the most significant issue relating to the changeover to IFRS.

## SUMMARY OF ANNUAL RESULTS

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

	2008	2007	2006
Revenue	19,031	11,386	10,580
Income (loss) from operations	(3,052)	1,844	1,200
Basic and Diluted Income (loss) per Share/Unit	Basic - \$(0.65) Fully Diluted - \$(0.65)	\$1.23	\$0.80
Total Assets	149,019	113,303	70,668
Total Financial Liabilities	31,500	115,000	70,537
Cash Dividends/Distributions declared per Share/Unit	Basic - \$1.63 Fully Diluted - \$1.59	\$1.04	\$1.72

## OUTSTANDING SHARES

At December 31, 2008, the Corporation had 8,455,169 voting and 666,668 non-voting common shares issued and outstanding (9,121,837 in aggregate) and at March 11, 2009, the Corporation had 8,458,027 voting and 666,668 non-voting common shares issued and outstanding (9,124,695 in aggregate). On October 10, 2008, the Corporation held a shareholders meeting whereby a consolidation and subsequent split of the voting and non-voting common shares resulted in the repurchase of 29,911 voting shares at \$12 per share (\$358,932). These 29,911 voting common shares were held by over 5,000 shareholders, all with less than 50 voting common shares each that reduced the number of outstanding voting common shares to 8,452,311 (9,118,979 in aggregate) as at October 29, 2008. Under the RSU Plan, the Corporation issued 2,858 voting common shares from treasury in the quarter and has issued 2,858 voting common shares from treasury subsequent to December 31, 2008. At December 31, 2008, 379,400 restricted share units and 224,150 stock options were outstanding under the Corporation's long-term incentive compensation plans.

## **OUTLOOK**

Alaris' agreements with the Finance Group provide for payments estimated to provide the Corporation approximately \$17.5 million of revenues in 2009. General and administrative expenses have increased as a result of additional public company costs and are currently estimated at \$2.2 million annually. The senior debt facility is fully drawn to \$25 million and the annual interest rate on that debt is 6.5% at December 31, 2008. \$6.5 million of demand, subordinated debt is outstanding with an annual interest rate of 13%. Cash requirements after net income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment. In each month since August 2008, the Corporation declared monthly dividends of \$0.12 per voting and non-voting common share that were paid on the 15<sup>th</sup> of the month following the month in which the dividend was declared.

Alaris' revenue outlook for 2009 includes a drop in revenues from current operations of approximately 8% due to a decline in 2009 distributions from Lower Mainland Steel ("LMS"). LMS experienced a dramatic shift in their business late in their 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 LMS incurring material bad debt expenses for the first time in their operating history that decreased their reported gross profit. Beyond LMS, the other three members of the Finance Group continue to perform well, even in these difficult times and we expect increased contributions from each of them compared to 2008.

For 2010, the Corporation again expects increases in its royalties and distributions in line with historical performance from each of Life Mark Health, MEDIchair and End of the Roll. However, LMS will see a significant drop in gross profit compared to the previous year. The decline is 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. A return to normal margins is expected to occur within the next three months. The net result of these two factors on LMS' operations will be a possible decline in gross profits of as much as 80% on their September 30, 2009 results which will result in a decrease to LMS' distributions to Alaris in 2010.

While results for LMS in 2009 are being conservatively forecast to account for the current economic conditions, the longer-term outlook for LMS is more positive. LMS is expected to benefit from the British Columbia provincial government's recent budget that included an announcement of \$14 billion of new infrastructure projects to be completed over the next three years. With a significant share of the rebar installation market in lower mainland B.C., Lower Mainland Steel is ideally situated to recover in the coming years. As a result, it is the view of the Corporation's management that there has been no objective evidence of impairment on the value of the transaction with Lower Mainland Steel.

## **DIVIDEND REDUCTION**

Given the current economic condition, the Board of Directors of Alaris has determined to reduce the Company's monthly dividend to \$0.07 per common share from \$0.12 per common share, beginning with the March 2009 monthly dividend. This decision will preserve approximately \$4.5 million in 2009, which will predominantly be used to reduce senior debt.

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

## **RISKS AND UNCERTAINTY**

### **Risks Relating to Transactions with Finance Group Members**

#### **1. Financial Health of Finance Group**

The Corporation is entirely dependent on the operations and assets of the Finance Group through its indirect partnership interests and royalty arrangements. The Corporation's ability to pay dividends to its shareholders is dependent on the distributions received in respect of its transactions with the Finance Group. This is affected by many factors including the profitability and capital expenditures of the Finance Group. Distributions to Alaris from the Finance Group are generally based on a percentage of the Finance Group's 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 Finance Group Member declines with respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any Finance Group Member to fulfill its distribution obligations to Alaris could adversely affect the Corporation's financial condition and cash flows.

The transaction agreements provide Alaris with certain remedies in the event of non-payment of royalty, distribution or interest by the applicable Finance Group Member. In addition, some of Alaris' transactions with certain Finance Group Members are secured by the assets of the Finance Group Member. However, Alaris' rights to payment and its security interests are usually subordinated to the payment rights and security interests of a Finance Group Member's commercial and trade lenders.

For a discussion of the particular risk factors applicable to the Finance Group, see "Risk Factors — Risks Relating to the Finance Group Members" below.

#### **2. Reliance on Key Personnel**

The success of Alaris and of each of the Finance Group Members 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 loss of the services of any key personnel could have a material adverse effect on the business, financial condition, and results of operations or future prospects of Alaris or a Finance Group Member. In addition, the growth plans of the Corporation and the Finance Group 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 Finance Group 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 Finance Group Members will be able to effectively manage their growth, and any failure to do so could have a material adverse effect on Alaris' business, financial condition, results of operations and future prospects.

#### **3. General Economic Conditions**

The Corporation's business and the business of each of the Finance Group Members 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. Recent market events and conditions, including disruptions in the international credit markets and other financial systems have resulted in a deterioration of global economic conditions. These conditions worsened in 2008 and are continuing in 2009, causing a loss of confidence in the broader U.S. and global credit and financial markets and resulting in the collapse of, and government intervention in, major banks, financial institutions and insurers and creating 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 about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions caused the broader credit markets to further deteriorate and stock markets to decline substantially. These factors have negatively impacted company valuations and will impact the performance of the global economy going forward and could have a material adverse effect on the Corporation's and the Finance Group Member's business, financial condition, results of operations and cash flows.

#### 4. Failure to Complete or Realize Anticipated Benefits of Finance Group Members

A key element of the Corporation's growth plan is carrying out transactions with additional Finance Group Members and deploying further capital in the initial Finance Group Members in the future. The ability of Alaris to identify and complete new opportunities is not guaranteed. Achieving the benefits of future transactions will depend in part on successfully identifying and completing such opportunities in a timely and efficient manner and in structuring such transactions to ensure a stable and growing stream of distributions. The identification and completion of future transactions will require the dedication of management effort, time and resources, which may divert management's focus, and resources from other strategic opportunities.

#### 5. Limited Diversification of Alaris' Finance Group

Alaris does not have stringent fixed guidelines for diversification of its transactions with Finance Group Members. At any given point in time, Alaris may have a significant portion of its assets invested in a single business or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, Alaris could incur significant losses, which could, in turn, have a material adverse effect on Alaris' business, results from operations and financial condition.

#### 6. Ability to Manage Future Growth

The ability of Alaris to sustain continued growth depends on its ability to identify, evaluate and transact with suitable private businesses that meet its criteria. Accomplishing such a result on a cost-effective basis is largely a function of Alaris' sourcing capabilities, its management of the transaction process, its ability to provide capital on terms that are attractive to private businesses and its access to financing on acceptable terms. As Alaris grows, it will also be required to hire, train, supervise and manage new employees. Failure to manage effectively any future growth could have a material adverse effect on Alaris' business, financial condition and results of operations.

#### 7. Availability of Future Financing for Operations, Dividends and Growth

The Corporation expects that its principal sources of funds will be cash generated from the Finance Group. The Corporation believes that funds from these sources will provide it with sufficient liquidity and capital resources to meet its ongoing business operations at existing levels. Despite the Corporation's expectations, however, the Corporation may require additional equity or debt financing to meet its 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 the Corporation's financial condition may be materially adversely affected.

The payout by Alaris of substantially all of its operating cash may make additional transaction capital and operating expenditures dependent on increased cash flow or additional financings in the future. Alaris will require equity or debt financing in order to acquire interests in new Finance Group Members or to deploy

additional capital in the initial Finance Group Members. There can be no assurance that such financing will be available when required or on commercially favourable terms which could limit Alaris' growth.

#### 8. Competition with other Investment Entities

Alaris competes with a large number of private equity funds and mezzanine funds, investment banks and other equity and non-equity based investment funds, and other sources of financing, including the public capital markets. Some of Alaris' competitors are substantially larger and have considerably greater financial resources than Alaris. Competitors may have a lower cost of funds and many have access to funding sources that are not available to Alaris. In addition, certain of Alaris' 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 Alaris faces will not have a material adverse effect on Alaris' business, financial condition and results of operations. Also, as a result of this competition, Alaris may not be able to take advantage of attractive transaction opportunities from time to time and there can be no assurance that Alaris will be able to identify and complete transactions that satisfy Alaris' business objectives or that it will be able to meet Alaris' business goals.

#### 9. New Finance Group Member Risks

If Alaris is successful in transacting with one or more new Finance Group Members, the business of these companies may be subject to one or more of the risks referred to under "Risk Factors — Risks Relating to the Finance Group Members" or similar risks and may be subject to other risks particular to such business or businesses.

#### 10. Regulation

Alaris and the Finance Group Members are subject to a variety of federal, provincial and local laws, regulations, and guidelines and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions. 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 Finance Group Members' business, financial condition, results of operations and cash flows. Such laws and regulations are subject to change. Accordingly, it is impossible for Alaris or the Finance Group Members to predict the cost or impact of such laws and regulations on their respective future operations.

#### 11. Leverage

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

## 12. Transaction Termination Rights

Each of the Finance Group Members has the right to terminate agreements with Alaris through a repurchase or redemption right that arises after a fixed period of time following the closing of Alaris' transaction in the applicable Finance Group Member. Although Management believes that the repurchase or redemption purchase price would adequately compensate Alaris for the foregone payments, Alaris would be required to re-deploy the cash received including possibly investing in its own shares through the repurchase and cancellation of its Common Shares or Non-Voting Shares, in order to maintain dividend levels. There is no assurance that Alaris would be able to successfully identify and complete any such alternative transactions or complete any such share repurchase.

## **Risks Relating to the Finance Group Members**

### 1. Risks Relating Generally to the Finance Group

Alaris invests in private businesses. There is generally no publicly available information about these 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, Alaris relies on its management and consultants to investigate these businesses. There can be no assurance that Alaris' due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. Finance Group Members may have significant variations in operating results, may from time to time be parties to litigation, may be engaged in rapidly changing businesses 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, or the ability of a Finance Group Member to service, its distribution obligations to Alaris, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Finance Group Member's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by Alaris.

**The following represent key risk factors challenging the businesses of each of the Finance Group Members and the industries in which they operate.**

### 1. Competition

Each Finance Group Member 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 the Finance Group Members 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 the Corporation.

## 2. Supplier and Brand Reputations

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

## 3. Additional Franchises and Franchise Operations

Two of the Finance Group Members, End of the Roll, and MEDChair are franchisors. The growth of revenues of these companies is largely dependent upon their ability to maintain and grow their franchise systems and to execute their current growth strategy for both increasing the number of franchisees and increasing the number of locations. If these companies are unable to attract qualified franchisees, their 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 dependant upon available personnel.

The franchisees that operate the businesses of 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.

## 4. Seasonality

Businesses that generate revenue from the sale of seasonal merchandise or products are subject to the risk of changes in consumer spending behaviour as a result of unseasonable weather patterns or other seasonal factors.

## 5. Reliance 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 Finance Group Member's operations or ability to access additional capital qualified personnel, expand or compete.

## 6. Leverage

Leverage may have important adverse consequences to the Finance Group and to Alaris. Finance Group Members may be subject to restrictive financial and operating covenants. The leverage may impair their 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 were not used.

## **Risks Relating Specifically to LifeMark Health**

The following represents key risk factors affecting the integrated physical rehabilitation service industry and LifeMark Health's business.

### **1. Government Regulation**

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 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.

### **2. Funding**

LifeMark Health will continue to require additional working capital to conduct existing marketing activities and to expand its network of clinics. LifeMark Health will need to raise additional funds through collaborations with corporate partners or through private or public financings to support its long-term acquisition and marketing efforts. If adequate funds are not available, LifeMark Health would be required to curtail its business objectives in one or more areas. There can be no assurance that unforeseen developments or circumstances will not alter LifeMark Health's requirements for capital, and no assurance can be given that additional financing will be available on acceptable terms, if at all.

### **3. 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.

### **4. Confidentiality of Personal and Health Information**

The collection, use and disclosure of patient personal and health information are subject to substantial regulation by federal and, in most cases, by provincial governments. These laws provide that the individual's consent is required prior to the collection, use and disclosure of the 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 Lower Mainland Steel**

The following represents key risk factors affecting the steel manufacturing and installation industries and Lower Mainland Steel's business.

### **1. General Economic Conditions**

Lower Mainland Steel's business has been significantly affected by current economic conditions. Those conditions will have a material impact on the year over year distributions that the Corporation receives from its transaction with Lower Mainland Steel.

### **2. Volatility of Steel Prices**

The world steel markets in which Lower Mainland Steel operates can be extremely volatile and cyclical. Up to approximately 60% of Lower Mainland Steel's variable costs can be attributed to the price of steel. A failure of Lower Mainland Steel 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 Lower Mainland Steel's results.

### **3. Inventory and Fixed Price Contracts**

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, Lower Mainland Steel is contractually obligated to supply significant quantities of steel at a predetermined price. Lower Mainland Steel 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 replacement costs, then Lower Mainland Steel will incur lower realization on those contracts which will have an adverse effect on Lower Mainland Steel's results.

Lower Mainland Steel'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, Lower Mainland Steel would normally expect price realization on shipments of Lower Mainland Steel's finished products to deteriorate, producing inferior returns during the period when older inventories are being sold.

### **4. Contract Cancellations**

In the current economic environment, Lower Mainland Steel has seen some projects canceled or delayed. Where Lower Mainland Steel has previously purchased inventory for those projects, they are left with higher price steel that can't be sold at normal margins in a market of declining steel prices.

### **5. Supplier Base**

Lower Mainland Steel 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 Lower Mainland Steel to secure its supplies, as well as an increase in the cost of those supplies adversely affecting its financial results.

## 6. Labour Relations Risk

Approximately one-half of Lower Mainland Steel's employees are unionized or governed by collective trade agreements (e.g., steelworkers or automotive). Labour disruptions could adversely affect Lower Mainland Steel's business; however, Lower Mainland Steel notes that the agreements are with multiple union locals within diverse regions.

## 7. Trade Policy Restrictions

Lower Mainland Steel 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 Lower Mainland Steel's favour could have a material adverse effect on Lower Mainland Steel's results.

### **Risks Relating Specifically to MEDIchair**

The following represents key risk factors affecting the home medical equipment industry and MEDIchair's business.

#### 1. Product Liability

MEDIchair, like other retail and distributing companies, is subject to a variety of potential liabilities connected with its business operations, including potential liabilities and expenses associated with possible product defects. MEDIchair's products are highly complex and sophisticated and, from time to time, contain design and manufacturing defects that are difficult to detect and correct. There can be no assurance that errors will not be found in new products after sales to consumers or, if discovered, that the manufacturers of such products will be able to successfully correct such errors in a timely manner or at all. The consequences of such errors and failures could have a material adverse effect on MEDIchair's business, financial condition and results of operations.

Consistent with industry practice, MEDIchair allows customers to return products for warranty repair, replacement or credit. Although MEDIchair will provide allowances for anticipated returns, and management believes that the policies of MEDIchair have resulted in the establishment of allowances that are adequate, there is no assurance that such product returns will not exceed such allowances in the future and as a result may have a material adverse effect on future operating results. If any of the products distributed by MEDIchair prove defective, MEDIchair may be required to refund the price of or replace the product.

MEDIchair maintains product liability and other insurance coverage which it believes to be generally in accordance with industry practices. Nevertheless, such insurance coverage may not be adequate to protect MEDIchair fully against substantial damage claims which may arise from product defects and failures.

#### 2. Government Regulation

All MEDIchair products are submitted to, and meet the requirements of the Canadian Standards Association. Although MEDIchair intends to seek any other necessary approvals for future products, there can be no assurance that the codes and standards relating to such approvals will not change, thus requiring additional approvals, or that MEDIchair will be able to secure all necessary approvals at acceptable costs or within desired time frames.

### 3. Healthcare Reimbursement

MEDiChair's ability to grow sales of accessibility equipment may depend, in part, on the extent to which reimbursement for the cost of such products will be available from government health administration authorities, private health coverage insurers, and other organizations. Third-party payors are increasingly challenging the price of medical equipment. There can be no assurance that third-party coverage will be available to assist potential buyers of MEDiChair's products.

### **Risks Relating Specifically to End of the Roll**

The following represents key risk factors affecting the home medical equipment industry and End of the Roll's business.

#### 1. Volume Rebate Policies

A portion of End of the Roll's annual operating income comes from volume rebates from its suppliers. Although these volume rebates have been a part of End of the Roll's business since its inception, there can be no assurances that the terms of these arrangements will remain the same. A change in the terms and arrangements with their suppliers could reduce End of the Roll's operating cash flow.

#### 2. Competition

End of the Roll competes in a highly fragmented market and they compete directly with some of the national home renovation chains. Although they have been competing with the same groups for a number of years, there is a risk that one of the national chains could reduce prices to become a loss leader and reduce End of the Roll's market share.

#### 3. Suppliers

End of the Roll sells flooring products manufactured or supplied by a number of major suppliers. As is customary in the industry, End of the Roll does not have long-term contracts with any of its major suppliers. Although End of the Roll believes that it has access to similar products from competing suppliers, any disruption in End of the Roll's sources of supply could have a material adverse effect upon End of the Roll's business.

### **Risks Relating to the Structure of the Corporation**

#### 1. Absence of Operating History as a Public Company

Management has limited experience operating the Corporation as a public entity. To operate effectively, the Corporation will be required to continue to implement changes in certain aspects of its business, improve and expand its management information systems and develop, manage and train management level and other employees, to comply with on-going public company requirements. Failure to take such actions, or delay in the implementation thereof, could adversely affect the Corporation's business, financial condition, liquidity and results of operations.

## 2. Dependence on the Finance Group

Alaris' ability to pay dividends is entirely dependent upon its business operations, its ability to satisfy its debt service obligations and to pay its operating expenses. Alaris' sole source of cash flow is its interest in the Finance Group Members. Alaris is subject to the risks encountered in the operation of its business, and the results of operations and financial condition of the Finance Group.

## 3. Unpredictability and Volatility of Share Price

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 operating results and other factors.

In addition, the securities markets have experienced significant market-wide and sectoral price and volume fluctuations from time to time that often have been unrelated or disproportionate to the operating performance of particular issuers. Such fluctuations may adversely affect the market price of the Common Shares.

## 4. Dividends

The amount of dividends paid by the Corporation will depend upon numerous factors, including 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 beyond the control of the Corporation. Dividends are not guaranteed and will fluctuate with Alaris' performance and the performance of the Finance Group. There can be no assurance as to the levels of dividends to be paid by the Corporation, if any. The Corporation 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 the Corporation is unable to pay dividends in accordance with its dividend policy in the future, and such deterioration may be material.

## 5. Tax Related Risks

The Corporation 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.

## 6. Ability to Recover from Finance Group Members for Defaults under Transaction Agreements

Each Finance Group Member provides certain representations and warranties and covenants to Alaris LP regarding the Finance Group Member and its business and certain other matters. Following a transaction with Alaris LP and a Finance Group Member, the Finance Group Member may distribute all or a substantial portion of the proceeds that it receives from such investments to its securityholders. In the event that Alaris LP or the Corporation suffers any loss as a result of a breach of the representations and warranties or non-compliance with any other term of a transaction agreement, Alaris LP may not be able to recover the amount of its entire loss from the Finance Group Member. The Finance Group Member may not have sufficient property to satisfy the Corporation's loss.

## 7. Conflicts of Interest

Certain directors of the Corporation are associated with other companies or entities, which may give rise to conflicts of interest. In accordance with the CBCA, directors who have a material interest in any person who is a party to a material contract or proposed material contract with the Corporation are required, subject to certain exceptions, to disclose that interest and abstain from voting on any resolution to approve that contract. In addition, the directors are required to act honestly and in good faith with a view to the best interests of the Corporation.

## 8. The Corporation May Issue Additional Common Shares Diluting Existing Shareholders' Interests

The Corporation may issue an unlimited number of Common Shares and Non-Voting Shares for such consideration and on such terms and conditions as shall be established by the Corporation 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.

## **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 Finance Group, 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 Finance Group. In particular, this MD&A contains forward looking statements regarding the revenues anticipated to be received from the Finance Group and the Corporation's general and administrative expenses. 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. 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 Finance Group; risks relating to the Finance Group Members 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 Finance Group to terminate the various agreements with Alaris L.P.; 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

## **FORWARD-LOOKING STATEMENTS (continued)**

payment by Alaris L.P. 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 Finance Group for defaults under the various agreements with Alaris L.P.; 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 Finance Group 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 Finance Group Members 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](http://www.sedar.com).