



**MANAGEMENT DISCUSSION AND ANALYSIS**  
*For the three and nine months ending September 30, 2016*

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited financial statements for the three and nine months ended September 30, 2016 and September 30, 2015 for Alaris Royalty Corp. ("**Alaris**" or the "**Corporation**"). The Corporation's unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" and are recorded in Canadian dollars. These financial statements do not contain all disclosure required by IFRS for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards. Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

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

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

**Normalized EBITDA** refers to EBITDA excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses and gains to EBITDA. Management deems non-recurring items to be unusual and/or infrequent items that the Corporation incurs outside of its common day-to-day operations. For the period ended September 30, 2016, the gain on the redemption of the LifeMark, Solowave and Killick units (in 2015), the impairment of the KMH units, the write off of the interest on the KMH promissory notes, one-time penalties and fees related to the CRA GST audit and the unrealized foreign exchange gains and losses are considered by management to be non-recurring charges. Adjusting for these non-recurring items allows management to assess EBITDA from ongoing operations.

**Earnings Coverage Ratio** refers to EBITDA of a Partner (as defined below) divided by such Partner's sum of debt servicing (interest and principal), unfunded maintenance capital expenditures and distributions to Alaris.

**Per Share** values, other than earnings per share, refer to the related financial statement caption as defined under IFRS or related term as defined herein, divided by the weighted average basic shares outstanding for the period.

**Fixed Charge Coverage Ratio** refers to EBITDA divided by the sum of capital expenditures, interest, current income taxes and dividends.

**Contracted EBITDA** refers to EBITDA for the previous twelve months excluding proceeds from any disposition of investments but including all projected contracted payments from new investments for the twelve-month period following the investment date.

**Payout Ratio:** Payout ratio refers to Alaris' total dividend per share paid over a period, divided by the net cash from operating activities per share generated over the same period. The payout ratio is sometimes referred to as "run-rate payout ratio". The "run-rate" payout ratio calculation is based on the dividend expected to be paid over the next twelve months divided by the net cash from operating activities expected over the same twelve months. In this case, net cash from operating activities is based on revenue less operating expenses, interest and taxes expected to be collected and paid over that same twelve month period. No accrual of revenue is included in the payout ratio or "run-rate" payout ratio calculations.

**Tangible Net Worth** refers to the sum of shareholders' equity less intangibles.

The Non-IFRS measures should only be used in conjunction with the Corporation's interim financial statements, excerpts of which are available below, and annual audited statements, complete versions of both statements are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## OVERVIEW

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

## RESULTS OF OPERATIONS

### *Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015*

	3 months ending		
	September 30		
	2016	2015	% Change
Revenue per share	\$0.64	\$0.65	-1.7%
Normalized EBITDA per share	\$0.58	\$0.56	+3.1%
Net cash from operating activities per share	\$0.43	\$0.26	+66.1%
Dividends per share	\$0.405	\$0.405	+0.0%
Weighted average basic shares outstanding (000's)	36,365	35,336	

During the first nine months of 2016, over \$80 million CAD has been contributed to two new Partners in Sandbox Acquisitions, LLC and Sandbox Advertising, LP (collectively “Sandbox” - \$22 million USD) and M-Rhino Holdings, LLC, operating as Providence Industries (“Providence” - \$30 million USD), and two follow on contributions to current Partners: \$4.35 million USD to an affiliate of LMS Limited Partnership (“LMS”) and \$6.5 million USD to a subsidiary of Federal Resources Supply Company (“Federal Resources”). Following quarter end, Alaris contributed \$18 million USD (\$23.4 million CAD) to Matisia LLC (“Matisia”) bringing year to date contributions to over \$100 million. Alaris continues to experience strong results in its key performance metrics of revenue, Normalized EBITDA, net cash from operations, and dividends, on a per share basis in the three months ended September 30, 2016 (the Corporation used Normalized EBITDA rather than EBITDA to back out the non-cash foreign exchange gains and losses, gains and losses on the redemption or sale of the Corporation’s financial interest in partners no longer with Alaris, and non-recurring items including impairment of preferred units, bad debts and penalties and fees).

Net cash from operating activities per share increased by 66% to \$15.53 million and is 6% higher than the \$14.72 million in dividends paid in the three month period ending September 30, 2016. This includes the impact of distributions from Partners that were not received in the current quarter but that are expected to be paid in the next twelve months of \$3.5 million (SM, Labstat and Agility).

The Corporation has deployed over \$270 million since June 2015 through initial contributions to six new Partners; Sandbox, Providence, DNT Construction, LLC (“DNT”), Federal Resources, MAHC Holdings, LLC (“MAHC”) and Matisia (subsequent to period end) as well as follow on investments into four Partners: PF Growth Partners, LLC (“Planet Fitness”), Kimco Holdings, LLC (“Kimco”), LMS and Federal Resources. The Corporation experienced organic growth from its Partners with weighted average net annual performance metric resets for 2016 increasing by an estimated 2.1%, which resulted in increases to our existing revenue base for 2016.

Revenues from Partners for the three months ended September 30, 2016 totaled \$23.3 million (including \$3.5 million in revenue accrued for SM, Agility and Labstat) compared to \$23.0 million in the prior year period. The increase of 1.2% is a result of the addition of new Partners and follow on contributions with current Partners in the last twelve months as well as

year over year performance metric adjustments from each of the Partners as described below, with an offset for redemptions by Partners in 2015 and 2016 as well as no accrual of revenue for Kimco and SCR in the period. See “Private Company Partner Update” for more information on the individual Partners’ performance.

Partner Revenue (000's)	3 months ending September 30, 2016	3 months ending September 30, 2015	% Change	Comment
Sequel LLC	\$3,991	\$3,858	3.4%	Same program sales increase July 1/16
DNT	3,423	3,432	-0.2%	Difference due to FX
Federal Resources	2,693	2,190	23.0%	Additional \$6.9M contribution in March 2016
Planet Fitness LLC	2,029	1,950	4.0%	+5% same club sales increase Jan 1/16 and FX
Solowave	1,720	1,623	6.0%	+6% same customer sales increase Jan 1/16 due to strength in US and Int'l market
Group SM	1,594	1,692	-5.8%	6% reduction in reset on Jan.1/16
Labstat	1,725	1,500	15.0%	YTD results ahead of PY, total distribution expected to be \$6.2M in 2016.
LMS	1,202	1,056	13.8%	Additional contribution of \$4.35M in March 2016
Kimco	-	1,527	-100.0%	Gross revenue -6% Jan 1/16, stopped monthly accrual until paying current distributions
Agility LLC	1,003	1,038	-3.3%	Same clinic sales -3.0% Jan.1/16
SCR	-	1,600	-100.0%	Pause in distributions beginning June 2016
MyDyer	1,467	-	100.0%	Contribution closed April 2016
Sandbox	1,074	-	100.0%	Contribution closed March 2015
Mid-Atlantic HealthCare	649	-	100.0%	Contribution closed Dec 2015
End of the Roll	297	290	2.4%	Increase in same store sales May.1/16
LifeMark	-	1,070	-100.0%	Redeemed in Jan 2016
<b>Subtotal</b>	<b>\$22,867</b>	<b>\$22,825</b>	<b>0.2%</b>	
Interest	427	201	112.5%	Interest on promissory notes, Group SM increased notional outstanding
<b>Total</b>	<b>\$23,294</b>	<b>\$23,026</b>	<b>1.2%</b>	

Finance costs of \$1,523,191 in the period were 74.8% higher compared to \$871,359 in the prior year period. In the third quarter of 2016, the Corporation started with \$120 million drawn on the credit facility, which was higher than the comparative period, resulting in higher finance costs. The Corporation drew down on its credit facility in the period to fund the contribution to Matisia, which closed subsequent to period end.

Salaries and benefits were \$623,132 in the period, up 22.1% compared to \$510,339 in the prior year period. The increase is due to a higher number of total employees.

In the three months ending September 30, 2016 the Corporation recorded non-cash stock based compensation expenses totaling \$1,026,196 (2015 – \$191,610) which included: \$690,424 to amortize the fair value of the Corporation’s restricted share units (the “RSU Plan”) (2015 –\$384,958) and \$335,773 to recognize the fair value of outstanding stock options (2015 – (\$193,348)). The increase in non-cash stock based compensation expenses compared to the prior year period was due to new options and RSUs issued in the past twelve months in accordance with the Corporation’s compensation plan as well as lower than normal expenses in the third quarter of 2015 due to the departure of a member of the management team in Q2 2015.

Corporate and office expenses were \$428,219 compared to \$636,835 in the prior year and include office rent, travel and corporate administrative expenses. The 32.8% decrease was due to the timing of certain annual expenses and a reduction in overall expenses by bringing more professional work in-house.

Legal and accounting expenses were \$540,982 for the three months ended September 30, 2016, an 11.2% decrease compared to \$609,256 in the prior year period. The decrease is was due to lower legal expenses in the period.

The Corporation recorded earnings of \$17.0 million, EBITDA of \$24.7 million and Normalized EBITDA of \$21.0 million for the three months ended September 30, 2016 compared to earnings of \$6.5 million, EBITDA of \$9.8 million and Normalized EBITDA of \$19.8 million for the three months ended September 30, 2015. The 6.5% increase in Normalized EBITDA is a result of the addition of three new Partners in the past twelve months: MAHC (December 2015), Sandbox (March 2016), Providence (April 2016), and follow on investments to Federal Resources, and LMS, offset by the redemption for LifeMark (March 2016). The increase in earnings and EBITDA is due to contributions to new partners of over \$80 million and organic growth of the annual distributions, offset by the redemption of LifeMark units. The comparative period results included the impairment of the KMH, LP (“KMH”) units of \$20.0 million and the write-off of bad debt related to KMH distributions.

Reconciliation of Net Income to EBITDA (thousands)	3 months ending September 30, 2016	3 months ending September 30, 2015
Earnings	\$ 17,026	\$ 6,466
Adjustments to Net Income:		
Amortization and depreciation	69	64
Finance costs	1,523	871
Income tax expense	6,028	2,387
<b>EBITDA</b>	<b>24,646</b>	<b>9,788</b>
Normalizing Adjustments		
Gain on disposal of investment	(1,589)	-
Unrealized foreign exchange loss/(gain)	(2,074)	(14,037)
Impairment of Preferred Units	-	20,460
Bad Debt Expense	-	3,570
<b>Normalized EBITDA</b>	<b>\$ 20,984</b>	<b>\$ 19,781</b>

Normalizing adjustments in the current period include a \$1,588,747 gain on the redemption of the Solowave units on September 30, 2016. The Corporation also recorded an unrealized gain on foreign exchange contracts of \$596,829 in the three months ended September 30, 2016 compared to a loss of \$2,646,919 in the prior year period as the value of the USD decreased slightly from June 30th, increasing the mark to market value of the forward contracts. Additionally, the Corporation recorded an unrealized foreign exchange gain of \$1,476,958 in the three months ended September 30, 2016 compared to a gain of \$16,684,292 in the prior year period. The gain or loss in each period is due to the impact of the change in the US exchange rate from June 30<sup>th</sup> to September 30<sup>th</sup> on the USD loan to the Corporation’s wholly-owned subsidiary and our investment in Federal Resources.

A portion of the \$67.8 million of cash held at September 30, 2016 was used to satisfy the dividend declared in September 2016 (payable October 15, 2016). Additionally, over \$23 million was contributed to Matisia and \$22 million of senior debt was repaid shortly after quarter end using a portion of the Solowave proceeds.

The Corporation has recorded a \$6.2 million deferred tax asset and a \$19.8 million deferred tax liability on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation’s internal projections.

### ***Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015***

	9 months ending September 30		
	2016	2015	% Change
Revenue per share	\$2.00	\$1.80	+11.2%
Normalized EBITDA per share	\$1.67	\$1.54	+8.3%
Net cash from operating activities per share	\$1.15	\$0.98	+17.2%
Dividends per share	\$1.215	\$1.160	+4.7%
Weighted average basic shares outstanding (000’s)	36,326	33,234	

Net cash from operating activities per share is slightly less than dividends paid in the nine months ending September 30, 2016 due to distributions from Partners that were not received in the current period but that are expected to be paid in the next twelve months of \$14.4 million.

Revenues from Partners for the nine months ended September 30, 2016 totaled \$72.8 million (including \$14.4 million in revenue accrued for SM, Agility, Labstat, SCR and Kimco) compared to \$59.4 million in the nine months ended September 30, 2015. The increase of 22.5% compared to the prior period is a result of new Partners added in the past twelve months as well as a net increase in the performance metric adjustments from each of the Partners as described below. See “Private Company Partner Update” for more information on the individual Partners’ performance.

Partner Revenue (000's)	9 months ending September 30, 2016	9 months ending September 30, 2015	% Change	Comment
Sequel LLC	\$11,852	\$10,857	9.2%	Same program sales increase July 1/16
DNT	10,416	4,513	130.8%	Contribution closed June 2015
Federal Resources	7,492	2,309	224.4%	Contribution closed June 2015, additional contribution April 2016
Planet Fitness LLC	6,173	5,218	18.3%	+5% same club sales increase Jan 1/16, additional \$5M contribution late 2015
Solowave	5,160	4,868	6.0%	+6% same customer sales increase Jan 1/16 due to strength in US and Int'l market
Group SM	4,782	5,103	-6.3%	6% reduction in reset in Jan.1/16
Labstat	4,475	4,500	-0.6%	Sweep estimate consistent with PY, total distribution expected to be \$6.2M in 2016.
LMS	3,465	3,111	11.4%	Gross profit -4% Jan 1/16, additional contribution of \$4.35M USD in March
Kimco	2,816	4,436	-36.5%	Gross revenue -6% Jan 1/16, stopped monthly accrual July 1, 2016
Agility LLC	3,053	3,016	1.2%	Same clinic sales -3.0% offset by strengthening USD
SCR	3,008	4,800	-37.3%	-6% due to lower gross revenue, reduced mining activity due to commodity prices, temporary suspension in distributions beginning June 2016
MyDyer	2,918	-	100.0%	Contribution closed April 2016
Sandbox	2,407	-	100.0%	Contribution closed March 2015
Mid-Atlantic HealthCare	1,975	-	100.0%	Contribution closed Dec 2015
End of the Roll	926	893	3.7%	Increase in in same store sales May 1/16
LifeMark	730	3,128	-76.7%	Redeemed in Jan 2016
KMH	-	1,890	-100.0%	No payments accrued in 2016
Killick	-	538	-100.0%	Redeemed in Jan 2015
<b>Subtotal</b>	<b>\$71,648</b>	<b>\$59,179</b>	<b>21.1%</b>	
Interest	1,126	678	66.1%	Interest on promissory notes, Group SM increased notional outstanding
<b>Total</b>	<b>\$72,774</b>	<b>\$59,857</b>	<b>21.6%</b>	

Finance costs of \$4,398,830 in the period were 87% higher compared to \$2,352,287 in the prior year period due to a larger amount of debt outstanding in 2016. In 2016, the Corporation started with \$77.5 million of senior debt which has increased due to the investments in Sandbox, Providence, and Matisia (closed subsequent to period end) and follow on investments in Federal Resources and LMS. This was partially offset by the redemption of LifeMark and Solowave.

Salaries and benefits were \$2,760,925 in the period, up 19.2% compared to \$2,316,018 in the prior year period due to a \$175,000 increase in the management bonus pool based on a distributable cash per share formula for the period from July 1, 2015 to June 30, 2016, and higher overall staffing levels.

In the nine months ending September 30, 2016 the Corporation recorded non-cash stock based compensation expenses totaling \$3,897,824 (2015 – \$2,646,387) which included: \$2,747,272 to amortize the fair value of the Corporation’s restricted share unit plan (the “RSU Plan”) (2015 –\$1,794,885) and \$1,150,552 to recognize the fair value of outstanding stock options (2015 – \$851,502).

Corporate and office expenses were \$2,639,463 compared to \$2,238,042 in the prior year and include office rent, travel and corporate administrative expenses. The 17.9% increase was due to a higher head count as well as one-time penalties and fees related to a GST reassessment.

Legal and accounting expenses were \$1,837,072 for the nine months ended September 30, 2016 compared to \$1,518,193 for the prior year period. The 21.0% increase was due mostly to significant professional fees incurred in the first three months of 2016 relating to the review and monitoring of the KMH strategic process to protect the remaining value of the preferred units.

Deferred income taxes for the nine months ended September 30, 2016 were consistent with in the prior year period due to an increase in earnings from operations.

The Corporation recorded earnings of \$44.9 million, EBITDA of \$63.9 million and Normalized EBITDA of \$60.6 million for the nine months ended September 30, 2016 compared to earnings of \$37.3 million, EBITDA of \$50.1 million and Normalized EBITDA of \$48.7 million for the nine months ended September 30, 2015. The increase in EBITDA and Normalized EBITDA can be attributed to the addition of new Partners in the past twelve months: MAHC (December 2015), Sandbox (March 2016), Providence (April 2016), a full nine months from Federal Resources (June 2015) and DNT (May 2015) and follow on investments to a number of Partners, partially offset by the redemption for LifeMark (March 2016) and lower distributions from Kimco and SCR in 2016.

Reconciliation of Net Income to EBITDA (thousands)	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Earnings	\$ 44,909	\$ 37,311
Adjustments to Earnings:		
Depreciation and amortization	208	141
Finance costs	4,399	2,352
Income tax expense	14,340	10,389
<b>EBITDA</b>	<b>63,855</b>	<b>50,193</b>
Normalizing Adjustments		
Gain on partner redemption	(20,177)	(2,792)
Unrealized foreign exchange loss/(gain)	8,353	(22,682)
Impairment of preferred units	7,000	20,460
Bad debt expense	853	3,570
Penalties and fees	656	-
<b>Normalized EBITDA</b>	<b>\$ 60,540</b>	<b>\$ 48,749</b>

Normalizing adjustments include gains on the redemption of the Solowave units in September and LifeMark units in March totalling \$20,176,754. The Corporation also recorded an unrealized gain on foreign exchange contracts of \$4,990,595 in the nine months ended September 30, 2016 compared to a loss of \$3,263,885 in the prior year period. Additionally, the Corporation recorded an unrealized foreign exchange loss of \$13,343,726 in the nine months ended September 30, 2016 compared to a gain of \$25,946,115 in the prior year period. The gain or loss in each period is a non-cash item and due to the impact of the change in the US exchange rate on the USD loan to the Corporation's wholly-owned subsidiary and our investment in Federal Resources. Other adjustments include the previously disclosed \$7 million write down of the KMH units from the last quarter and the write off of interest on promissory notes to KMH.

## PRIVATE COMPANY PARTNER UPDATE

The Corporation's interest in each of the Partners consists of a preferred partnership interest, preferred LLC or other equity interest, a loan, or ownership of intellectual property with a return based on a formula linked to a top-line metric (i.e. sales or gross profit) rather than a residual equity interest in the net earnings of such entities. The Corporation has no involvement in the day to day business of each Private Company Partner and has no rights to participate in management decisions. The Corporation does not have any significant influence over any of the Partners nor does it have the ability to exercise control over such Partners except in limited situations of uncured events of default. Instead, the Corporation has certain restrictive covenants in place designed to protect the ongoing payment of the distributions payable to Alaris. In addition, the Partners are required to obtain the consent of Alaris in certain circumstances prior to entering into a material transaction or other significant matters outside the normal course of business. Such transactions generally include, without limitation, acquisitions & divestitures, major capital expenditures, change of control and incurring additional indebtedness.

For the revenues received in USD, the Corporation has purchased monthly forward contracts locking in the foreign exchange rate for the next twelve months and approximately 50-70% the following twelve months.

The following is a summary of each of the Partners recent financial results. Included in this summary will be a comment on the Partners' Earnings Coverage Ratio. Because this information from time to time is based on unaudited information provided by Private Company Partner management, each Earnings Coverage Ratio, based on the most current information for the trailing twelve months, will be identified as part of a range. The ranges are: less than 1.0x, 1.0x to 1.5x, 1.5x to 2.0x and greater than 2.0x. A result greater than 1 is considered appropriate and the higher the number is, the better the ratio.

Additionally, the Corporation has disclosed the percentage of current annualized revenue based on the expected distributions from each Partner for the next twelve months based on information at November 8, 2016. Interest from promissory notes is 1.6% of total revenue from Partners.

### Agility Health

Annual Distribution	US\$3.06 million (or 4.0% of annualized revenue)
Description	Agility Health is a health care company specializing in providing physical and occupational therapy and speech pathology services to health care providers and employers through 37 hospital clinics, 34 long term care facilities and 70 outpatient clinics across the United States.
Contribution History	Since December 2012, the Corporation has purchased preferred LLC units in Agility Health, LLC ("Agility") for an aggregate acquisition cost of \$20.1 million USD. Annual growth and decline in Agility's distributions to Alaris is capped at 6% and is based on the change in same clinic sales.
Performance	<p>Based on unaudited statements provided by management for the eight months ended August 31, 2016, revenue is flat and EBITDA is marginally behind the prior year due to reductions in reimbursement rates for some services.</p> <p>Agility has notified the Corporation that it is evaluating alternatives, including, without limitation, a sale transaction, to effect a repurchase of the Corporation's preferred units. In order to facilitate this process and provide Agility with the flexibility to execute on its business plan while completing such review Agility asked Alaris for a deferral on payments of the distribution for the period of March 2016 through September 2016. Alaris agreed to permit this deferral upon certain conditions, while also reserving its rights and remedies available to it under its agreements with Agility. If Alaris' units are repurchased it expects to receive, at a minimum the fair value of the units plus any accrued and unpaid Distributions. The strategic process is still underway but the units were not repurchased by September 30, 2016, nor were the deferred payments made. Normal distributions restarted as expected in October, 2016. When the unpaid distributions were not paid, and the strategic process</p>

	was not completed on a timely basis, Alaris issued a notice of default giving Agility 90 days to complete the repurchase. Alaris has full step-in rights relating to its investment in Agility if the event of a default is not followed by a repurchase of Alaris' units in a defined period of time. The Corporation currently expects a repurchase of its units at a premium to its investment cost and fair value as well as collection of the unpaid distributions.
Fair Value	The fair value of the Agility units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Agility units is evaluated each quarter. The fair value of the Agility units remains at \$20.0 million USD at September 30, 2016.
ECR	The actual Earnings Coverage Ratio for Agility is above 1.0x since distributions were not paid since from March to September 2016 but when considering all distributions owing, the Earnings Coverage Ratio is still below 1.0x.

**DNT Construction**

Annual Distribution	US\$10.5 million (or 13.6% of annualized revenue)
Description	DNT specializes in turnkey civil construction services to residential, commercial and municipal end markets including excavation, the installation of wet and dry utilities such as electrical, gas, sewage and water as well as paving and the building of retaining walls. With its head office in Austin, Texas, DNT employs over 650 people during peak season and is one of the largest service providers of its kind in the Austin market while also holding significant market share in San Antonio. These markets are attractive, fast growing and have diverse economies with major industry employers including healthcare, government, technology and education. Both Austin and San Antonio have strong employment rates and significant job growth at rates above the U.S. National average.
Contribution History	In June 2015, the Corporation announced the purchase of preferred units in DNT, for an aggregate acquisition cost of \$70 million USD. Annual growth or decline in DNT's annualized distributions of \$10.5 million USD to Alaris is capped at 6% and is based on gross revenues. \$30 million of the distributions are redeemable at par at a minimum of \$5 million per year starting in 2017.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, DNT's revenue and EBITDA are both more than 10% ahead of the prior year due to a strong start to 2016 compared to weather delays at the start of the year in 2015 that impacted margins in the prior year.
Fair Value	The fair value of the DNT units increased by \$1.6 million USD to a total of \$73.6 million USD as we get closer to the expected maximum 6% distribution increase expected on January 1, 2017. The fair value of the DNT units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has improved since last quarter and remains between 1.5x and 2.0x.

**End of the Roll Carpet and Flooring**

Annual Distribution	CAD\$1.23 million (or 1.2% of annualized revenue)
Description	End of the Roll is a Canada-wide retail flooring franchise system and completed its eleventh fiscal year as an Alaris partner on April 30, 2016. The renovation industry has been relatively stable year

	over year and End of the Roll's results reflect that.
Contribution History	The Corporation's original contribution of \$7.2 million in End of the Roll was in 2005. Same store sales is the top-line performance metric on which the annual payments to the Corporation are reset.
Performance	Based on unaudited financial statements prepared by management for the year ended April 30, 2016, same store sales were +3.0%, increasing our annual distribution by the same percentage. Based on unaudited financial statements for the four months ended August 31, 2016, revenue and EBITDA are consistent with the prior year.
Fair Value	The End of the Roll transaction is recorded as an intangible asset and is reviewed for impairment when triggers exist. No impairment triggers exist at this time.
ECR	The Earnings Coverage Ratio for End of the Roll improved since the last quarter and continues to be well over 2.0x.

**Federal Resources**

Annual Distribution	US\$7.96 million (or 10.3% of annualized revenues)
Description	Federal Resources is a leading value-added provider of mission critical products and solutions to defense, first responder, homeland security and maritime end users in the United States. In particular, Federal Resources specializes in the provision of detection and protection equipment to end-users dealing with chemical biological, radiological, nuclear and explosive ("CBRNE") threats. According to Federal Resources' management, CBRNE products are one of the highest growth product categories in the defense procurement budget with CBRNE threats representing the most widely anticipated global threat over the next 10 years. Federal Resources was founded in 1986 and employs 150 people.
Contribution History	In June 2015, the Corporation announced a \$7.0 million USD subscription for preferred stock (the "FR Units") of Federal Resources and a \$40 million USD secured subordinated loan (the "FR Loan") to Federal Resources, for an aggregate cost of US\$47 million. Annual interest on the FR Loan is fixed at \$7.05 million USD to Alaris. Commencing in January, 2017, Alaris will also be entitled to receive an annual preferred dividend based on an increase to Federal Resources' gross revenues (subject to a 6% collar). Such annual dividend will be adjusted (up or down) each year based on any increases or decreases in Federal Resources' gross revenues for its immediately preceding fiscal year, subject to a maximum increase or decrease of six percent (6%) per year. On April 29, 2016 Alaris made an additional contribution of \$6.5 million USD in exchange for preferred units in a subsidiary of Federal Resources providing an annual distribution of \$910,000 USD.
Performance	Based on unaudited financial statements provided by management for the nine months ended September 30, 2016, Federal Resource's revenue and EBITDA are both over 20% ahead of prior year.
Fair Value	The fair value of the FR Units increased by \$1.3 million to \$16.2 million USD as we progress toward the expected maximum dividend on its preferred equity in January 2017. The FR Loan was made in June 2015 and the fair value of the Loan is the outstanding principal amount of \$40 million USD. The fair value of the FR Units and the FR Loan in Canadian dollars will fluctuate each quarter with foreign exchange rates.

ECR	The Earnings Coverage Ratio for FR has increased since the last quarter and remains between 1.0x and 1.5x.
-----	--

**Kimco**

Annual Distribution	US\$4.81 million (or 6.2% of annualized revenue)
Description	Kimco has been providing commercial janitorial services since the 1970s. The majority of Kimco's services are generated under long-term contracts (generally 1-3 years) to more than 375 customers, which range in size from multi-location national customers to regional single-site customers.
Contribution History	In June 2014, the Corporation announced the purchase of preferred units in Kimco for an aggregate acquisition cost of \$29.2 million USD. The Corporation purchased additional preferred units in December 2015 for \$3 million USD. Annual growth or decline in Kimco's annualized distributions to Alaris is capped at 6% and is based on gross revenue.
Performance	As disclosed previously, Kimco has been facing cash constraints in 2015 and into 2016. Kimco is in breach of certain financial covenants with its senior lenders which has resulted in the distribution to Alaris being temporarily suspended. The Corporation has a formal agreement in place with Kimco's senior lenders to amend the monthly distribution schedule once certain financial covenants are met. Kimco's results in the first nine months of 2016, while profitable, did not exceed the prescribed level and no distribution has been paid as of the date hereof. Accounts receivable at September 30, 2016 includes \$4.4 million USD of Kimco distributions that Alaris expects to eventually collect. Alaris continues to work with the senior lender to help resolve the cash constraints, which has led to some recent changes to Kimco management and in the company's cost structure in order to improve cash flow management and set a clear path to the resumption of distributions. At this time, Alaris cannot provide an estimate as to the timing for the resumption of distributions, but we will update the market as new information becomes available.
Fair Value	The fair value of the Kimco units in Canadian dollars will fluctuate each quarter with foreign exchange rates but the underlying fair value will be evaluated each quarter in USD. The fair value of the Kimco units decreased by \$7.8 million USD to \$21.1 million USD due to revised expectation of future distributions as a result of the underperformance of the business.
ECR	The Earnings Coverage Ratio for Kimco is consistent with last quarter but remains below 1.0x for the last twelve month period when considering all distributions owed to Alaris.

**KMH Cardiology**

Annual Distribution	CAD\$0
Description	KMH is a private healthcare company operating twelve diagnostic imaging clinics (nuclear medicine, cardiology and MRI) in Ontario and eight clinics in the United States.
Contribution History	Alaris first contributed \$5.0 million in 2010 and another \$49.8 million since that time for a total of \$54.8 million of preferred partnership units in KMH Limited Partnership ("KMH") in five separate contributions.

<p>Performance</p>	<p>Based on unaudited internal financial statements provided by KMH's management for the eight months ended August 31, 2016, revenues and EBITDA are both slightly ahead of the prior year.</p> <p>KMH ceased paying regular distributions to the Corporation in November 2014. As part of the negotiations for a redemption of the KMH units, accrued interest on outstanding promissory notes in the amount of \$0.8 million was recorded as bad debt expense during the second quarter of 2016. The \$3.5 million promissory note is still outstanding at September 30, 2016 and is expected to be collected.</p> <p>Alaris continues to work with stakeholders of KMH to find a viable solution to recapitalize the business. A strategic process has been ongoing and resulted in a number of different options which would provide Alaris with a meaningful value for its units in KMH. Because the Corporation does not have formal step-in rights as it has with other partners, the strategic process has taken considerably longer than anticipated. Over nine months ago, the Corporation formally gave KMH notice of default and demanded that KMH repurchase the preferred units and repay the outstanding promissory notes and accrued interest. As mentioned last period, the current arrangement would result in a \$28 million cash payment for the Corporation's preferred units (plus the \$3.5 million promissory note) and we continue to expect that amount today. The Corporation has seen continued but slow progress on the contemplated transactions and is seeking to finalize this arrangement as soon as possible. Given the length of time this process has taken Alaris cannot provide comments on expected timing but will provide an update when new information becomes available.</p>
<p>Fair Value</p>	<p>The fair value of the KMH units is unchanged at \$28 million. In the absence of regular cash distributions to support a discounted cash flow valuation, the Corporation has used a liquidation value supported by third party valuations received during the strategic process to approximate the current valuation.</p>
<p>ECR</p>	<p>The Earnings Coverage Ratio for KMH is below 1.0x if all distributions currently owed to the Corporation are included but none have been paid since March 2015.</p>

**Labstat International ULC**

<p>Annual Distribution</p>	<p>CAD\$6.2 million (\$3.4 million fixed and \$2.8 million via annual sweep (or 6.1% annualized revenue)</p>
<p>Description</p>	<p>Labstat is a global leader in regulation-driven analysis of tobacco smoke and products as well as deemed tobacco products such as electronic cigarettes. Annual growth and decline in Labstat's distributions to Alaris are capped at 6% and is based on the change in gross revenues.</p>
<p>Contribution History</p>	<p>Since June 2012, the Corporation has purchased partnership units in Labstat International, ULC ("Labstat") for an aggregate acquisition cost of \$47.2 million over two tranches.</p>
<p>Performance</p>	<p>In February 2014, Alaris agreed to temporarily restructure the form of its distributions, reducing the fixed portion to 7.25% on all preferred equity contributed with a variable portion in the form of a cash sweep up to the maximum that would have been paid under the original agreement provided certain financial covenants and performance targets continued to be met. This arrangement expires June 2017 after which the distributions are expected to return to the regularly scheduled amounts.</p> <p>Fixed distributions of \$3.42 million are scheduled again for 2016. Based on unaudited financial statements prepared by management for the eight months ended August 31, 2016, revenue and EBITDA are more than 20% ahead of the prior year and better than the unaudited internally prepared budget. The Corporation expects total distributions from Labstat of just over \$6 million for</p>

	2016 (up to a maximum of \$7.5 million based on the maximum 6% increase to the annual distributions). The accrual for the cash flow sweep in the first nine months of 2016 is based on the forecast prepared by management. 50% of the sweep will be paid prior to December 31, 2016 with the remainder paid in April 2017 as per the terms of the agreement with Labstat.
Fair Value	Due to an increase in expected distributions for 2016 and 2017, the fair value of the Labstat units was increased by \$2.2 million to \$49.2 million at September 30, 2016.
ECR	The Earnings Coverage Ratio has increased since last quarter and continues to be in the 1.0x to 1.5x range.

**LMS Reinforcing Steel Group**

Annual Distribution	CAD\$4.90 million (or 4.8% of annualized revenue)
Description	LMS is a western Canadian based (with operations now also in Southern California) concrete reinforcing steel fabricator and installer. LMS has experienced strong volumes and work on hand across each of its residential, commercial and infrastructure business segments in British Columbia while some of the Alberta work has seen a decline. The recently acquired US business has seen some early improvement. LMS benefited from increased volume and consistent margins over the past few years, and based on work on hand, LMS management expects continued success throughout the 2016 fiscal year due to increased infrastructure spending in Alberta and British Columbia, and operating improvements in LMS' US facility.
Contribution History	The Corporation's original contribution into LMS was in 2007 subsequent to which it has since contributed a total of \$54 million. The Corporation completed a follow on contribution in 2016 (to a U.S. affiliate) of \$4.35 million USD to help LMS fund an acquisition in a new market where they have similar customers. Total gross profit is the top-line performance metric on which the annual distributions to the Corporation are reset. A portion of the annual distributions from LMS reset on January 1 <sup>st</sup> and the remainder on April 1 <sup>st</sup> based on the December year end results from the previous year.
Performance	Based on unaudited financial statements prepared by management for the nine months ended September 30, 2016, revenue is modestly ahead of the prior year, while gross profit and EBITDA are modestly behind the prior year; however, the forecast prepared by LMS' management expects a small increase in gross profit for the year ending December 31, 2016.
Fair Value	The fair value of the Canadian LMS units remains at \$33.0 million at September 30, 2016 while the US units are at \$4.35 million USD at September 30, 2016.
ECR	The Earnings Coverage Ratio for LMS declined since last quarter and remains between 1.0x and 1.5x.

**Matisia**

Annual Distribution	US\$2.7 million (or 3.5% of annualized revenue)
Description	Matisia is a Seattle, Washington-based management consulting firm that works with companies to provide innovative, customized consulting solutions across four primary service lines: Business

	Intelligence, Enterprise Resource Planning Services, Project Leadership & Product Management, and Organizational Change Management
Contribution History	Subsequent to September 30, 2016, Salaris USA Inc. (wholly owned subsidiary of Alaris USA Inc.) announced a contribution of \$18.0 million USD to Matisia LLC (the “Matisia Contribution”) in exchange for an annual distribution of \$2.7 million USD (the “Matisia Distribution”). The Matisia contribution is comprised of \$12 million USD of permanent preferred units (the “Permanent Matisia Units”) and \$6.0 million USD of redeemable preferred units (“Redeemable Matisia Units”). This is the first transaction for the Alaris Small Cap Division, which is operated through a wholly owned subsidiary Salaris Small Cap Royalty Corp. (“Salaris”). The Redeemable Units are expected to be short-term, and can be redeemed at any time at par by Matisia, the Redeemable units entitle Alaris to an annual distribution of \$0.9 million USD out of the US\$2.7 million total distributions.
Performance	The Matisia Contribution closed subsequent to September 30, 2016, therefore there is no performance update.
Fair Value	US\$18.0 million
ECR	The Earnings Coverage Ratio for Matisia is between 1.5x to 2.0x on a proforma basis.

**Mid-Atlantic Healthcare**

Annual Distribution	US\$1.99 million (or 2.6% of annualized revenues)
Description	Founded in 2003 and headquartered in Timonium, MD, Mid-Atlantic Health Care has grown to be an innovator in post-hospital services throughout Maryland and Pennsylvania, operating 21 facilities and over 3,800 beds in those states. Mid-Atlantic Health Care prides itself on providing the highest quality of healthcare by offering a caring environment, quality hands-on clinical and nursing services, and a commitment to outstanding, patient-centered care. Mid-Atlantic is a leader in managing skilled short-term stays for rehabilitation as well as long term care.
Contribution History	On December 31, 2015, the Corporation announced the purchase of preferred units in MAHC for an aggregate acquisition cost of \$13.275 million USD. Annual growth or decline in MAHC’s annualized distributions of \$1.99 million USD to Alaris is capped at 5% and is based on same facility sales. MAHC has notified Alaris that it is close to completing an unsolicited full sale of its business (the “MAHC Sale”), which would result in the repurchase of Alaris’ units (the “MAHC Units”) for a total of over US\$18 million on Alaris’ original investment of US\$13.25 million (the “MAHC Contribution”). As contemplated at the time Alaris completed the MAHC Contribution, MAHC had been working on a full sale of their business prior to Alaris closing the MAHC Contribution in December 2015. If the sale was completed by June 1, 2016, the MAHC Units would have been repurchased at cost; however, since the transaction was not completed by June 1, 2016, the repurchase price for the MAHC Units on an exit event will be in line with the metrics for Alaris’ other partners which includes the payment of all distributions for the first three years of a partnership. The closing of the MAHC sale is subject to several conditions and cannot be guaranteed at this time. However, if approvals are granted it is expected to close in December 2016.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, MAHC’s revenue and EBITDA are both slightly ahead of the prior year.

Fair Value	The MAHC units were purchased in December 2015 and no significant changes have occurred so the fair value is what the Corporation paid for the units plus capitalized costs, \$14.0 million USD. The fair value of the MAHC units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for MAHC has decreased slightly and remains between 1.0x and 1.5x.

**PF Growth Partners**

Annual Distribution	US\$6.23 million (or 8.1% of annualized revenue)
Description	Planet Fitness, through its affiliates, operates over 40 fitness clubs in Maryland, Tennessee, Florida and Washington (as of September 30, 2016) as a franchisee of Planet Fitness® and has area development agreements ("ADA's") to open over 50 new Planet Fitness® clubs in those same States. Planet Fitness has grown to become one of the top 3 largest non-corporate affiliated franchisees in the Planet Fitness® system. Planet Fitness has a very repeatable, predictable and scalable business model and intends to open additional clubs over the next twelve months and currently employs over 450 individuals company-wide.
Contribution History	In November 2014, the Corporation announced the purchase of preferred units in Planet Fitness, for an aggregate acquisition cost of \$35 million USD. In July 2015, the Corporation purchased an additional \$5 million of preferred units. Annual growth or decline in Planet Fitness' annualized distributions of \$6.22 million USD to Alaris is capped at 5% and is based on same club sales.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, Planet Fitness' revenue and EBITDA are both over 20% ahead of the prior year. For 2015, same club sales exceeded the maximum 5% thus increasing the distributions to \$6.22 million USD for 2016.
Fair Value	The fair value of the Planet Fitness units increased by \$0.8 million to \$42.8 million USD at September 30, 2016 as the business progresses toward another maximum 5% increase in the annual distribution. The fair value of the Planet Fitness units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Planet Fitness has increased since the last quarter and remains between 1.5x and 2.0x.

**Providence Industries**

Annual Distribution	US\$4.5 million (or 5.8% of annualized revenues)
Description	Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers. The Company utilizes its extensive global network of sourcing and manufacturing partners to provide value-added sourcing excellence to customers, combined with rapid speed to market. In addition, Providence's unique design expertise and focus on innovation enables customers to remain at the forefront of evolving fashion trends. The Company has an experienced management team with significant industry "know-how", which is supported by a talented workforce of over 300 employees. Providence plans to continue to

	grow with current customers and add new customers that complement its current client and sourcing bases. The Company is headquartered in Long Beach, CA.
Contribution History	In April 2015, the Corporation contributed \$30.0 million USD to Providence. Annual growth or decline in Providence's annualized distributions of \$4.5 million USD to Alaris is capped at 5% and is based on the change in same customer sales.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, Providence's revenue and EBITDA are both well ahead of the prior year. The first reset of the annual distributions is not until January 1, 2018.
Fair Value	The Providence units were purchased in April 2016 and no significant changes have occurred so the fair value is what the Corporation paid for the units plus capitalized costs, \$30.5 million USD. The fair value of the Providence units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The earnings coverage ratio for Providence has increased since last quarter and is well over 2.0x.

**Sandbox**

Annual Distribution	US\$3.3 million (or 4.3% of annualized revenues)
Description	Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada. Sandbox has decades of proven results and is owned and managed by highly experienced advertising professionals with global experience. Sandbox focuses on serving clients primarily in highly specialized industries such as life sciences, agriculture and financial services. The company plans to continue to acquire and combine regional marketing communication companies that would complement the entire organization through diversity of clients and industries, skill sets and expertise. Sandbox is headquartered in Chicago, IL with offices in Chicago, Kansas City, Indianapolis, Des Moines, Santa Monica, New York and Toronto.
Contribution History	On March 8, 2016, the Corporation announced the purchase of preferred units in Sandbox for an aggregate acquisition cost of \$22 million USD. Annual growth or decline in Sandbox's annualized distributions of \$3.3 million USD to Alaris is capped at 6% and is based on the change in gross revenue.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, revenue is slightly ahead and EBITDA is approximately 10% behind the prior year as Sandox integrated several acquisitions and had modest customer turnover.
Fair Value	The Sandbox units were purchased in March 2016 and no significant changes have occurred so the fair value is what the Corporation paid for the units plus capitalized costs, \$22.7 million USD. The fair value of the Sandbox units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Sandbox has declined from between 1.5x and 2.0x last quarter and is now between 1.0x and 1.5x.

**SCR Mine Services**

Annual Distribution	CAD\$6.02 million (or 5.9% of annualized revenue)
Description	SCR provides mining, surface and underground construction, electrical and mechanical services to the Canadian mining industry.
Contribution History	In May 2013, the Corporation purchased partnership units in SCR Mining and Tunneling, LP (“SCR”) for an aggregate acquisition cost of \$40 million. Annual growth or decline in SCR’s distributions to Alaris is capped at 6% and are based on net revenue.
Performance	Based on unaudited financial statements provided by management for the eight months ended August 31, 2016, SCR’s revenue and EBITDA were both significantly behind prior year results due to the loss of one large customer because of a change in mining techniques as well as a general slowdown in the Canadian mining sector. Recent months have seen modest increases in revenue and positive cash flow and a meaningful increase in new work tenders. SCR has significant cash on its balance sheet, no debt and annual distributions are currently scheduled at \$6.02 million for 2016 after the maximum 6% decline in gross revenue effective January 1, 2016. The Corporation has received \$2.5 million of those distributions that were paid in January through May 2016. Beginning in June 2016, distributions ceased being paid to allow SCR to maintain sufficient liquidity to gain market share as the industry moves off historical lows and have the flexibility to bid on new projects that will require working capital investment. Any unpaid distributions from SCR in 2016 are expected to be collected in a future period, however, no accrual has been made for distributions in the current period as there is uncertainty around the timing of collection. For 2017, the Corporation intends to amend the agreement with SCR to a variable format based on available free cash flow with the ability to catch up previously unpaid distributions; the exact structure and terms of those amendments are still being finalized, the Corporation will provide an update once they have been completed.
Fair Value	The fair value of the SCR units remains unchanged at \$30.5 million at September 30, 2016.
ECR	The Earnings Coverage Ratio for SCR improved since the last quarter and remains below 1.0x.

**Sequel**

Annual Distribution	US\$12.24 million (or 15.8% of annualized revenue)
Description	Sequel is a privately owned company founded in 1999 which develops and operates programs for youth with behavioral, emotional, or physical challenges.
Contribution History	Since July 2013, the Corporation has purchased preferred LLC units in Sequel Youth and Family Services, LLC (“Sequel”) for an aggregate acquisition cost of \$73.5 million USD through two tranches. Annual growth or decline in Sequel’s distributions to Alaris is capped at 5% and is based on same program sales.
Performance	Based on unaudited financial statements prepared by Sequel management, for the year ended June 30, 2016, same programs sales increased by approximately 4% and distributions increased accordingly to \$12.2 million USD for the twelve months ended June 30, 2017.

	Based on unaudited information for the two months ended August 31, 2016, revenues and EBITDA are both slightly ahead of the prior year.
Fair Value	The fair value of the Sequel units remain unchanged at \$81.25 million USD. The fair value of the Sequel units will also fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Sequel has decreased slightly since last quarter and remains between 1.0x and 1.5x.

**SM Group International, LP**

Annual Distribution	CAD\$6.4 million (or 6.3% of annualized revenue)
Description	Group SM is a privately owned company founded in 1972 which specializes in the delivery of integrated scientific, engineering and IT solutions dedicated to the areas of buildings, energy, energy efficiency, environment, industry, infrastructure, natural resources, power, security, telecommunications and materials testing.
Contribution History	Since November 2013, the Corporation has purchased partnership units in SM Group International, LP ("Group SM") for an aggregate acquisition cost of \$40.5 million. Annual growth or decline in Group SM's distributions to Alaris is capped at 6% and is based on gross revenue. Since June 2015, the Corporation has also loaned \$17 million out of a maximum \$17 million demand facility as at September 30, 2016 (\$0.4 million loaned in the current quarter).
Performance	<p>Based on unaudited information for the eight months ended August 31, 2016, revenues are slightly behind and EBITDA is slightly ahead of the prior year.</p> <p>Distributions are currently scheduled and are being accrued at a current annual run rate of \$6.4 million. As previously disclosed, early in 2015 Group SM was dealing with cash constraints brought on by several factors, including the funding of a new business segment, declines in profit margin as well as costs associated with a lawsuit against an international customer, which resulted in significantly increased legal expenses and a decrease to its international bonding capability. As a result, Group SM was in breach of certain financial covenants and its senior lender suspended the monthly distribution to Alaris beginning in Q3 2015 and continuing today. A combination of a capital injection, improvements to the company's cost structure (that have been evident in recent monthly financial reports), and the cessation of the majority of legal costs associated with the lawsuit as well as an expected improvement in credit capabilities are expected to improve Group SM's cash flow position going forward.</p> <p>The Corporation remains confident in the management team at Group SM and the long-term prospects for the business remain positive. However, the business is currently constrained by a lack of bonding capabilities on large international contracts while the aforementioned lawsuit is ongoing as well as credit capacity issues on its revolving line of credit. Upon a successful settlement of the lawsuit as mentioned above, the Corporation expects a significant repayment and refinancing of the existing senior debt, collection of all outstanding distributions from 2015 and 2016 (\$8.1 million at September 30, 2016) and also expects the outstanding principal, interest and fees on the loans provided to Group SM to be repaid. If the lawsuit is not settled in Group SM's favor, other alternatives will have to be utilized to address the cash constraints, such as replacing Group SM's current lender or a full sale of the company and Alaris will have to revise its expectations around future distributions. A resolution of the lawsuit will open up international bonding capabilities, regardless of the outcome. Alaris is not directly involved in the process so unfortunately unable to comment on the expected timing of a resolution. An update will be given when a definitive outcome</p>

	is reached.
Fair Value	The fair value of the Group SM units remains at \$42.6 million.
ECR	The Earnings Coverage Ratio for Group SM is below 1.0x when considering the distributions that should have been paid to Alaris, consistent with the previous quarter.

**PARTNERS REPURCHASED IN 2016**

**Solowave**

Description	During the nine months ended September 30, 2016, the Corporation exited the Solowave investment after six successful years as a Partner. Since December 31, 2010, on total capital contributions of \$42.5 million, the Corporation received \$31.4 million of distributions and sold its units for \$44.6 million for total gross proceeds of \$76.0 million and an IRR of 17%.
-------------	--

**LifeMark**

Description	During the nine months ended September 30, 2016, the Corporation exited the LifeMark investment after eleven successful years as a Partner. Since December 31, 2004, on total capital contributions of \$67.5 million, the Corporation received \$77.2 million of distributions and sold its units for \$123.4 million for total gross proceeds of \$200.6 million and an IRR of 29%.
-------------	---

**LIQUIDITY AND CAPITAL RESOURCES**

As at September 30, 2016 the Corporation has a \$200 million credit facility, (with an additional \$50 million accordion facility) with a syndicate of Canadian chartered banks. The interest rate on the facility is prime plus 2.25% (4.95% at September 30, 2016). At September 30, 2016, the facility had \$140.4 million drawn. The covenants on the facility were all met and include a maximum debt to EBITDA of 1.75:1 (can extend to 2.25:1 for up to 90 days) (September 30, 2016 – 2.00:1), minimum tangible net worth of \$450 million (September 30, 2016 - \$643.4 million); and a minimum fixed charge coverage ratio of 1:1 (September 30, 2016 – 1.24:1). The leverage covenant was reduced immediately after quarter end with a repayment of \$22 million using proceeds from the Solowave redemption.

For the three months ending September 30, 2016, dividends were declared of \$0.135 per month for a total of \$0.405 per share and \$14,716,103 in aggregate. In the prior year period, dividends were declared of \$0.135 per month for a total of \$0.405 per share and \$14,564,409 in aggregate.

For the nine months ending September 30, 2016, dividends were declared of \$1.21 per share and \$44,126,214 in aggregate. In the prior year period, dividends were declared totalling \$1.16 per share and \$37,311,206 in aggregate.

The Corporation had 36,336,057 voting common shares outstanding at September 30, 2016. The Corporation had working capital of approximately \$86.1 million at September 30, 2016. Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

## WORKING CAPITAL

The Company's working capital (defined as current assets, excluding promissory notes and investment tax credits receivable, less current liabilities) at September 30, 2016 and December 31, 2015 is set forth in the tables below.

	30-Sep-16	31-Dec-15
Cash	\$67,822,062	\$20,990,702
Prepayments	2,015,515	2,434,451
Income tax receivable	4,174,899	3,528,509
Trade and other receivables	20,780,517	10,577,985
<b>Total Current Assets</b>	<b>\$94,792,993</b>	<b>\$37,531,647</b>
Accounts payable & accrued liabilities	3,378,244	2,138,132
Dividends payable	4,905,367	4,900,869
Foreign exchange contracts	354,893	5,345,488
Income tax payable	-	1,841,634
<b>Total Current Liabilities</b>	<b>\$8,638,504</b>	<b>\$14,226,123</b>
<b>Net Amount at December 31</b>	<b>\$86,154,489</b>	<b>\$23,305,524</b>

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

## FINANCIAL INSTRUMENTS

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

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	At fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Promissory note receivable	Loans and receivables	Amortized cost
Preferred LP and LLC units	Available for sale	Fair value
Loan receivable	Available for sale	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Derivative financial instruments	At fair value through profit or loss	Fair value

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

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from the Corporation's US investments. The Corporation matches approximately 80-100% of the next twelve months' scheduled distributions to the Canadian parent and a portion of the following twelve months' distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss. As at September 30, 2016, for the next twelve months, total contracts of \$32.25 million USD average \$1.30 CAD. For the following twelve months, total contracts of \$16.44 million USD average \$1.31 CAD.

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

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

30-Sep-16	Total	0-6 Months	6 mo – 1 years	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	\$3,378,244	\$3,378,244	\$-	\$-	\$-
Dividends payable	4,905,367	4,905,367	-	-	-
Foreign exchange contracts	354,893	-224,266	366,298	212,860	0
Income tax payable	-	-	-	-	-
Loans and borrowings	140,471,553	-	-	-	140,471,553
<b>Total</b>	<b>\$149,110,057</b>	<b>\$8,059,345</b>	<b>\$366,298</b>	<b>\$212,860</b>	<b>\$140,471,553</b>

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

## INTERNAL CONTROLS OVER FINANCIAL REPORTING

### A. Disclosure Controls and Procedures

There are no changes in internal controls over financial reporting. A complete discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited financial statements for the year ended December 31, 2015.

## SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior credit facility described under “Liquidity and Capital Resources”, the only material contractual obligation of the Corporation is its leases for office space. The Corporation agreed to a seven-year lease that commenced in 2009. Annual leasing costs were approximately \$175,000 however that space was no longer sufficient for the Corporation so in December 2014, the Corporation agreed to a five-year lease commencing July 2015 at a new location. The commitments below include recovery from a sub-lease for the final year of the 2009 lease.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	\$140,471,553	\$-	\$-	\$140,471,553	\$-
Office lease	1,547,625	205,446	1,342,179	-	-
Total Contractual Obligations	\$142,019,178	\$205,446	\$1,342,179	\$140,471,553	\$-

## CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management is required to make estimates when preparing the financial statements. Significant estimates include the valuation of intangible assets and preferred limited partnership units, 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.

## RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the unaudited condensed consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, with an effective date for annual periods beginning on or after January 1, 2018 and

could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

## SUMMARY OF QUARTERLY RESULTS

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

	Q3-16	Q2-16	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15
Revenue	\$22,867	\$24,913	\$24,566	20,683	19,082	17,734	19,763
Earnings	\$17,025	\$7,043	\$20,842	20,550	6,466	8,951	21,803
Basic and Diluted	\$0.47	\$0.19	\$0.57	\$0.57	\$0.18	\$0.28	\$0.68
Income (loss) per Share/Unit	\$0.46	\$0.19	\$0.57	\$0.56	\$0.18	\$0.27	\$0.66

In Q3 2016, the Corporation recorded a \$1.6 million gain on the Solowave redemption that increased revenue and earnings in that period. In Q2 2016, a \$7 million impairment charge was recorded. In each quarter in 2015 and 2016, an unrealized foreign exchange gain/loss has impacted earnings. In Q1 2016, the Corporation recorded an \$18.6 million gain on the LifeMark redemption that increased revenue and earnings in that period; in Q1 2015 the Corporation recorded a \$2.8 million gain on the Killick redemption that increased revenue and earnings in that period.

## OUTSTANDING SHARES

At September 30, 2016, the Corporation had authorized, issued and outstanding, 36,336,057 voting common shares.

For the three month period ended September 30, 2016 no additional shares were issued. For the nine month period ended September 30, 2016 the Company issued 32,821 common shares upon the issuance of shares as stock options vested and 500 common shares from the exchange of RSU's.

At September 30, 2016, 317,037 RSUs and 1,899,484 stock options were outstanding under the Corporation's long-term incentive compensation plans. 805,061 stock options are out of the money at September 30, 2016. The weighted average exercise price of the outstanding options is \$27.34.

At November 8, 2016, the Corporation still had 36,336,057 common shares outstanding.

## CRA UPDATE

In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2015 (the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately \$121.2 million of non-capital losses and \$2.3 million in ITC's by the Corporation were denied, resulting in reassessed taxes and interest of approximately \$40.6 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits for taxation years from 2006 through to 2012. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. The Corporation paid \$1.27 million in deposits in 2014 and an additional \$10.7 million in 2015 relating to these reassessments. In the nine months ending September 30, 2016, the Corporation paid a \$1.3 million deposit to the Alberta Treasury Board and Finance and a \$2.9 million deposit to the CRA relating to reassessments for the December 31, 2015 year. It is possible that

the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings subsequent to December 31, 2015, on the same basis. Remaining investment tax credits of \$7.7 million at September 30, 2016 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

Tax Year	ITCs Applied	Pools Applied	Tax, interest & penalties
2009 – 2014	-	110,655	35,158
December 2015	2,315	10,560	5,476
<b>Total</b>	<b>\$2,315</b>	<b>\$121,215</b>	<b>\$40,634</b>

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits of approximately \$6.2 million at September 30, 2016.

## OUTLOOK

Based on Alaris' current agreements with its partners, it expects revenues of approximately \$93.7 million for 2016 (no revenue to be accrued for Kimco and SCR in the 4<sup>th</sup> quarter, only amounts received will be recorded). For the fourth quarter of 2016, those same agreements provide for revenues of approximately \$21.9 million for the Corporation. Annual general and administrative expenses are currently estimated at \$8.3 million annually and include all public company costs.

After the restart of the Agility distributions and the addition of Matisia in October, the Corporation's current run-rate payout ratio is just over 100% with no distributions being collected from SM, Kimco, SCR & KMH. In addition, the gains on the LifeMark and Solowave redemptions have the bank covenants well within allowable levels. The table below sets out our estimated current run rate of net cash from operating activities alongside the after-tax impact of the various resolutions management is working toward:

Run rate financial summary <sup>(1)</sup>	\$000's	\$ Share	Comments
Revenue	\$82,685	\$2.27	
G&A	(8,300)	(0.23)	
Interest & Taxes	(17,400)	(0.48)	
Net Cash from Operations	56,985	1.57	
Annual Dividends	58,865	1.62	
Annual Difference	(\$1,880)	(\$0.05)	Approximately \$155K per month
<b>Other Considerations:</b>	<b>Cash Flow \$000's</b>	<b>\$ Share</b>	
KMH	+\$1,250	+\$0.03	Receive \$28 million for units, reduce debt and interest expense
SM	+5,760	+0.16	Restart distributions & receive \$27 million of proceeds
SCR <sup>(2)</sup>	+5,410	+0.15	Every \$2 million in distributions received is \$0.05/share
Kimco <sup>(3)</sup>	+5,080	+0.14	Every \$2 million in distributions received is \$0.04/share
New Investments	+1,515	+0.05	Every \$20 million deployed @ 15%
Distribution Resets	+1,400	+0.04	Effective Jan 1/17

Notes:

- (1) The above table has been included for illustrative purposes, based on management's current expectations and assumptions. It should not be taken as a guarantee of future performance. See "Forward-Looking Statements" below for information that could cause future results to vary.
- (2) Represents the impact on cash flow from a full year distribution being paid by SCR.
- (3) Represents the impact on cash flow from a full year distribution being paid by Kimco

The senior debt facility was drawn to \$140.4 million at September 30, 2016 and was reduced by \$22 million subsequent to period end, leaving the Corporation with approximately \$100 million of availability based on current covenants. The annual interest rate on that debt was approximately 4.95% at September 30, 2016 and remains at that level today.

Alaris' unique capital structure continues to fill a niche in the private capital markets. Therefore, Alaris continues to attract interest in its capital from private businesses across North America and is confident it will contribute capital to new, and existing Partners in 2016. As a conservative measure, Alaris does not use any estimates for future revenue earned from the contribution of capital into new or existing Partners in its guidance or budgeting process

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

## RISKS AND UNCERTAINTY

---

A complete discussion of the risks faced by the Corporation can be found under the MD&A that accompany the audited financial statements for the year ended December 31, 2015 and in the Corporation's annual information form for the year ended December 31, 2015, copies of which are available under the Corporation's profile at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

---

This MD&A contains forward looking statements. Statements other than statements of historical fact contained in this MD&A may be forward looking statements, including, without limitation, management's expectations, intentions and beliefs concerning the growth, results of operations, performance and business prospects and opportunities of the Corporation and the Partners, the general economy, the amount and timing of the declaration and payment of dividends by the Corporation, the future financial position or results of the Corporation, business strategy, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving the Corporation or the Partners. In particular, this MD&A contains forward looking statements regarding: the anticipated financial and operating performance of the Partners in 2016, including, without limitation, the Earnings Coverage Ratio for the Partners; the revenues to be received by Alaris in 2016 (on an annual and quarterly basis); the Corporation's general and administrative expenses and cash requirements in 2016; the CRA proceedings (including the expected timing and financial impact thereof); the Corporation's Payout Ratio; changes in Distributions from Partners; the resolution of the KMH process (including the structure, amount to be received by Alaris and the timing thereof); the resumption of Distributions and/or the collection of any deferred Distributions from certain Partners; the impact and timing of cost reduction strategies, working capital improvement and other cash flow initiatives of certain Partners; the impact of resolving issues with KMH, Kimco, SCR and Groupe SM; the structure of any of the foregoing resolutions; the repurchase of the MAHC units; and Alaris' ability to attract new private businesses to invest in. 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. To the extent that any forward-looking statements herein constitute a financial outlook, including without limitation, estimated revenues, and expenses, Payout Ratio, and changes in Distributions from Partners, they were approved by management as of the date hereof and have been included to assist readers in understanding management's current expectations regarding Alaris' financial performance and are subject to the same risks and assumptions disclosed herein. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward looking information contained in this MD&A. Statements containing forward looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The forward looking information contained herein are based on certain assumptions, including assumptions regarding the performance of the Canadian and U.S. economies over the next 24 months and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners; the continuing ability of the business of the Partners to pay the Distributions; the performance of the Private Company Partners; that Alaris will achieve the benefits of any concessions or relief measure provided to any Partners; that certain Partners not currently paying Alaris will restart Distributions in part or in full; that interest rates will not rise in a material way over the next 12 to 24 months; that the businesses of the Partners will not change in a material way; that the Corporation will experience net positive resets to its annual royalties and distributions from its Partners in 2016; more private companies will require access to alternative sources of capital; and that Alaris will have the ability to raise required equity and/or debt financing on acceptable terms.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris; unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; liquidity of Common Shares; changes in the financial markets; risks associated with the Partners and their respective businesses; a change in the ability of the Partners to continue to pay Distributions to Alaris; a material change in the operations of a Partner or the industries in which they operate; a failure to obtain the benefit of any concessions or relief measures provided to any Partners; a failure to successfully execute an exit strategy for a Partner when desired; a failure to obtain required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; litigation risk associated with the CRA's reassessment and the Corporation's challenge thereof; and material adjustments to the unaudited internal financial reports provided to Alaris by the Partners. The information contained in this MD&A, including the information set forth under "Risks and Uncertainty", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

The forward-looking statements contained herein are expressly qualified in their entirety by this cautionary statement. The forward looking statements included in this MD&A are made as of the date of this MD&A and Alaris does not undertake or assume any obligation to update or revise such statements to reflect new events or circumstances except as expressly required by applicable securities legislation.

## **ADDITIONAL INFORMATION**

---

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on available on SEDAR at [www.sedar.com](http://www.sedar.com) or under the "Investors" section of the Corporations website at [www.alarisroyalty.com](http://www.alarisroyalty.com).