



Annual Information Form

For The Fiscal Year Ended December 31, 2009

March 10, 2010

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## **ABOUT THIS ANNUAL INFORMATION FORM**

This annual information form (“AIF”) contains important information that will help you make informed decisions about investing in Alaris. It describes Alaris and our operations, our prospects, risks and other factors that affect our business.

### **CONVENTIONS**

Alaris carries on its business directly and through its subsidiaries and in this AIF, “we”, “us”, “our”, “Alaris Royalty Corp.”, “Alaris”, and the “Corporation” refer collectively to Alaris Royalty Corp. and our subsidiaries, unless the context specifies or implies otherwise.

For reporting purposes, Alaris prepares its financial statements in Canadian dollars and in conformity with Canadian GAAP as defined herein. Except as otherwise indicated, all dollar amounts in this AIF are expressed in Canadian dollars.

Words importing the singular number only include the plural and vice versa, and words importing any gender include all genders.

### **DATE OF INFORMATION**

This AIF is dated as of March 10, 2010. Except as otherwise indicated, the information contained in this AIF is current as of December 31, 2009.

## **SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND NON-GAAP MEASURES**

Alaris’ public communications often include written or oral statements which contain forward-looking information. Statements of this type are included in this AIF and may be included in our other filings with Canadian securities regulators, or in our other communications. Many of these statements can be identified by looking for words such as “believe”, “expects”, “will”, “intends”, “projects”, “anticipates”, “estimates”, “continues”, or similar words, or the negative of such words. All such statements are made pursuant to the applicable provisions of, and are intended to be forward-looking statements under applicable Canadian securities legislation. Statements containing forward-looking information include, but are not limited to, comments with respect to our objectives and priorities for 2010 and beyond, our growth strategies or future actions, and the results of or outlook for our operations and those of our Private Company Partners (as defined herein), or for the Canadian and U.S. economies. See “*Our Philosophy*”; “*Our Growth Strategy*”; “*Our Current Partners - LifeMark Health - Business Overview*”; “*Our Current Partners - LMS-Customers*”; and “*Our Current Partners - End of the Roll - Business Overview and Operations*” for specific forward-looking statements relating to these comments.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Assumptions about the performance of the Canadian and U.S. economies in 2010 and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners are material factors we considered when setting our strategic priorities and objectives, and our outlook for our business. Key assumptions include, but are not limited to, assumptions that the Canadian and U.S. economies will grow moderately in 2010, that interest rates will remain low, and that we will have the ability to raise required equity and/or debt financing on acceptable terms. We have also assumed that capital markets will improve somewhat and that the Canadian dollar will strengthen modestly relative to the U.S. dollar. In determining our expectations for economic growth, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies.

**There is a significant risk that our predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Although we believe that the expectations and assumptions reflected in our forward-looking statements are reasonable, we caution readers of this AIF not to place undue**

**reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.**

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those factors listed under the heading “*Risk Factors*” herein. We caution that this list of risk factors is not exhaustive. Other factors could adversely affect our results. When relying on forward-looking statements to make decisions with respect to Alaris, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Alaris does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking statements contained in this document are presented for the purpose of assisting our investors in understanding our operations, prospects, risks and other external factors that impact us specifically as at and for the periods ended on the dates presented, and may not be appropriate for other purposes.

### **NON-GAAP MEASURES**

The term EBITDA (the “**Non-GAAP Measure**”) is a financial measure used in this AIF that is not a standard measure under Canadian GAAP (as defined herein). Alaris’ method of calculating the Non-GAAP Measure may differ from the methods used by other issuers. Therefore, the Alaris’ Non-GAAP Measure 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 our ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

This Non-GAAP measure should only be used in conjunction with our annual audited and quarterly reviewed financial statements, complete versions of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## GLOSSARY OF TERMS

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

"**653Co**" means 6536522 Canada Inc., a company incorporated under the CBCA.

"**AIG Fund**" means Alaris Income Growth Fund, a trust formed under the laws of the Province of Alberta.

"**ABCA**" means the *Business Corporations Act* (Alberta), as amended, including the regulations promulgated thereunder.

"**ACT**" means Alaris Commercial Trust, a trust established under the laws of the Province of Alberta.

"**affiliate**" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"**AIF**" means this annual information form of the Corporation.

"**Alaris**", the "**Corporation**", "**we**", "**us**", or "**our**" means Alaris Royalty Corp., a corporation amalgamated under the CBCA.

"**AIC**" means Alaris IGF Corp., a wholly owned subsidiary of Alaris.

"**Alaris Partnership**" means Alaris Income Growth Fund Partnership, the general partnership resulting from the conversion of Alaris Income Growth Fund L.P. to a general partnership from a limited partnership.

"**Alaris Acquisition**" means the acquisition of Alaris Partnership by CanadaCo.

"**Amalgamation**" means the amalgamation of CanadaCo and 653Co to form Alaris.

"**associate**" has the meaning ascribed thereto in the *Securities Act* (Alberta).

"**business day**" means a day when banks are generally open for the transaction of business in Toronto, Ontario, other than a Saturday, Sunday or statutory or civic holiday.

"**CanadaCo**" means 6550568 Canada Inc., a corporation amalgamated under the CBCA.

"**CBCA**" means the *Canada Business Corporations Act* (Canada), as amended, including the regulations promulgated thereunder.

"**Common Shares**" means the common shares in the capital of Alaris.

"**Distribution**" means each distribution received by Alaris from each of the Private Company Partners.

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

"**First Assignment Agreement**" means an assignment of debt agreement whereby Alaris purchased \$51.5 million of outstanding subordinated debt of Alaris LP from Treherne for cash, or, solely at the option of CanadaCo, the issuance of Common Shares.

"**Private Company Partner**" and "**Private Company Partners**" means those corporations, partnerships or other entities with which Alaris has directly or indirectly entered into an alternative financing structure (also referred to

individually as a “**Finance Group Member**” and collectively as the “**Finance Group**” in certain other of our continuous disclosure documents).

"**Partnership Units**" means the partnership units of Alaris Partnership.

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

"**LMS**" means Lower Mainland Steel Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

"**Management**" means senior management of Alaris.

"**MEDIchair**" means MEDIchair Ltd., a corporation incorporated under the CBCA.

"**NI 51-102**" means National Instrument 51-102 – *Continuous Disclosure Obligations*.

"**Non-Voting Shares**" means the non-voting common shares in the capital of Alaris.

"**Offering**" means Alaris' short-form prospectus offering of 2,300,000 Units of Alaris on a bought-deal basis.

"**Second Assignment Agreement**" means an assignment of debt agreement whereby Alaris purchased \$32 million of outstanding subordinated debt of Alaris LP from Treherne for cash, or, solely at the option of CanadaCo, the issuance of Common Shares.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval, accessible at [www.sedar.com](http://www.sedar.com).

"**Shareholders**" means the holders of Common Shares and Non-Voting Shares from time to time.

"**Shares**" means the Common Shares and the Non-Voting Shares.

"**Subsidiary**" has the meaning set out in the *Securities Act* (Alberta) and includes a partnership or other entity.

"**Treherne**" means Treherne Resources Ltd., formerly 409790 Alberta Ltd., a company incorporated under the ABCA.

"**TSX**" means the Toronto Stock Exchange.

"**Units**" means Units of Alaris offered pursuant to the Offering, with each Unit consisting of one Common Share and one-half of a common share purchase warrant.

"**Warrants**" means those common share purchase warrants in the capital of Alaris, offered pursuant to the Offering.

"**Warrant Agent**" means Computershare Trust Company of Canada.

"**Warrantholder**" means an owner, directly or indirectly, of Warrants.

"**Warrant Indenture**" means that indenture made effective October 22, 2009 between Alaris and the underwriters under the Offering, pursuant to which the Warrants were issued.

## **CORPORATE STRUCTURE**

The Corporation was incorporated under the CBCA on May 23, 2006 on the amalgamation of CanadaCo and 653Co (the "**Amalgamation**"). CanadaCo was originally incorporated under the CBCA on April 7, 2006 and 653Co was originally incorporated under the CBCA on March 13, 2006. Following completion of the Amalgamation, the Corporation continued to use the name "6550568 Canada Inc." until July 31, 2008, when in connection with the Alaris Acquisition (as defined under "*General Development of the Business*"), the Corporation changed its name to "Alaris Royalty Corp."

On November 18, 2008, our Common Shares were listed and posted for trading on the TSX. The Common Shares trade under the symbol "AD".

Our registered office is located at 1400, 350 – 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9 and our head office is located at 232, 2031 – 33<sup>rd</sup> Avenue SW, Calgary, AB T2T 1Z5.

## **INTERCORPORATE RELATIONSHIPS**

Alaris has two subsidiaries: (i) AIC and (ii) Alaris Partnership. The following table shows our subsidiaries, where they are incorporated or formed, and the percentage of voting securities that we beneficially own or directly or indirectly exercise control over.

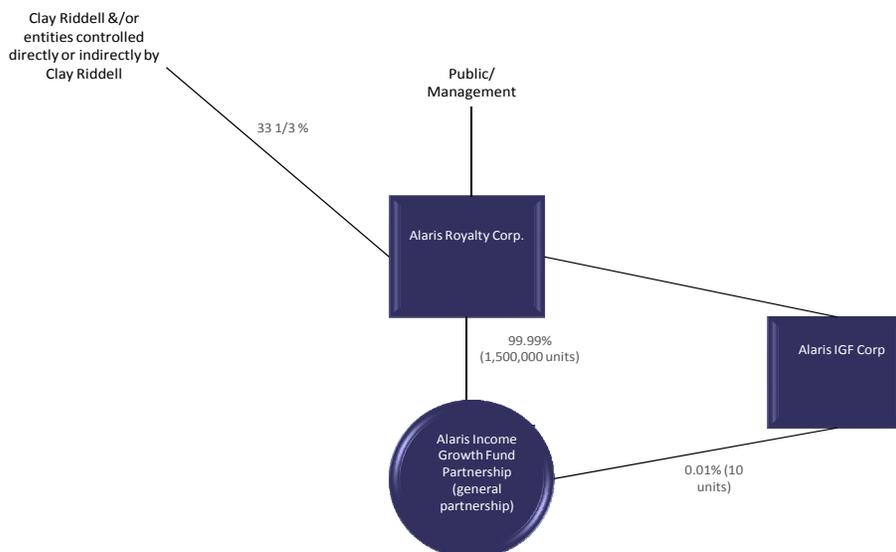
	<b>Percentage of voting securities (directly or indirectly)</b>	<b>Nature of Entity</b>	<b>Jurisdiction of Incorporation/ Formation</b>
AIC	100%	Corporation	Alberta
Alaris Partnership <sup>(1)</sup>	100% <sup>(2)</sup>	General Partnership	Alberta

### **Notes:**

- (1) On March 11, 2009 Alaris Income Growth Fund L.P. was converted into a general partnership from a limited partnership and changed its name to "Alaris Income Growth Fund Partnership".
- (2) Alaris currently owns 1,500,000 Partnership Units and AIC owns 10 Partnership Units, representing, together, all the outstanding Partnership Units of Alaris Partnership.

## ORGANIZATIONAL CHART

The following diagram describes the current organizational structure of Alaris:



## DESCRIPTION OF THE BUSINESS AND OPERATIONS

### OUR BUSINESS

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

### OUR STRUCTURE

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

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

We do not have any significant influence over any of our Private Company Partners nor do we have any ability to exercise control or have any voting rights over the Private Company Partners. Specifically, we do not have any rights to participate in management decisions and are not involved in the day-to-day operations of the Private

Company Partner within the normal course of business. However, we do require Private Company Partners to provide us with monthly (unaudited) financial statements so we can monitor their financial health, as well as annual (audited) financial statements. Although we do not have any voting rights, we have strong protective covenants in place with our Private Company Partners to protect our Distributions and typically require our prior consent on a number of items outside of the ordinary course of business, such as:

- Any material change in business of the company
- Material acquisition or divestiture
- Incurring new debt over predetermined levels
- Entering into non-arm's length transactions above prescribed levels
- Mergers or corporate reorganizations
- Extraordinary capital expenditures

## **OUR PHILOSOPHY**

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

At the same time, we derive diversified priority-cash returns from businesses that have displayed an ability to be highly profitable in varying economic environments. By supporting management teams that remain fully motivated, by their ownership position, to run their business profitably, our securityholders are able to receive stable monthly dividends based on distributions received by us from the private companies that are set 12 months in advance.

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

The result for our investors is a revenue stream that generally has low volatility and high predictability due to the "top line" royalty nature of our distributions from our Private Company Partners. Visibility is also created because of the 12 month pre-set payments we receive. Our structure gives us the ability to pay out the vast majority of our revenues in the form of tax effective eligible dividends, thus providing our investors with an attractive yet conservative yield.

## **OUR GROWTH STRATEGY**

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

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

## **OUR CURRENT PARTNERS**

We currently have four Private Company Partners to which we have provided capital. While each of the companies are in divergent industries and serve different markets, they all share similar characteristics that will also be prevalent in our future partnerships:

- A track record of sustainable free cash flow
- Participation in an industry with strong long-term prospects
- A strong management team with long-term goals
- Low debt levels and capital expenditure requirements.

Our current Private Company Partners are: (i) LifeMark Health; (ii) LMS; (iii) End of the Roll; and (iv) MEDiChair. A description of each of these Private Company Partners and their business and operations is provided below.



*Business Overview* LifeMark Health provides rehabilitation and physiotherapy services to private users, workers' compensation and safety boards, private insurance companies and government agencies. Management of LifeMark Health believes that LifeMark Health is one of Canada's largest providers of integrated physical rehabilitation services.

LifeMark Health operates over 100 clinics in Canada and has over 1,600 healthcare staff and consultants. The headquarters of LifeMark Health are located in Calgary, Alberta with an additional corporate office located in Toronto, Ontario. LifeMark Health operates in British Columbia, Alberta, Saskatchewan, Manitoba, Ontario, New Brunswick and Nova Scotia. LifeMark Health and its predecessor have been in business since 1979.

*Operations & Services* Since inception, LifeMark Health's strategy has been to combine leading Canadian physiotherapy clinics under a common operating company. LifeMark has developed its diversity of services through years of operating experience and through strategic acquisitions.

LifeMark Health offers customers single and multidisciplinary services that include: outpatient physiotherapy; sports medicine/athletic therapy; orthotics, chiropractics, prosthetics and bracing; program-based approach services such as return to work, chronic pain, head injury, vocational and medical rehabilitation and coordination; occupational health and injury; disability management; and dizziness and balance therapy.

The majority of LifeMark Health's facilities are freestanding outpatient physiotherapy clinics. LifeMark Health has six multidisciplinary facilities located in Vancouver, Kelowna, Calgary, Edmonton, Saskatoon and Halifax, which offer a broader suite of services.

*Customers* LifeMark Health receives its revenue from three primary sources:

Private payors represent LifeMark Health's primary customer base. A private payor is a customer who pays LifeMark Health directly and in turn submits the billing to his or her private health insurance plan to have a portion of the cost reimbursed or who is self-insured. Private payors are generally referred to LifeMark Health by physicians, rehabilitation caseworkers, family or friends and walk-in patients aware of LifeMark Health from personal referrals or local advertising.

LifeMark Health and its predecessor organizations have had ongoing business relationships with various governmental agencies (including provincial workers' compensation boards, regional health and safety boards and other governmental agencies – collectively “**Governmental Agencies**”) for more than 25 years. LifeMark Health's management views these relationships as a core financial and operational strength. These relationships provide new opportunities for LifeMark Health to expand

and modify its range of services. They also allow LifeMark Health the opportunity to capitalize on its record and develop relationships with other Governmental Agencies for whom it does not currently provide services.

When a worker is injured on the job, a caseworker from the applicable Governmental Agency directs the worker to an approved rehabilitation clinic to undergo rehabilitation treatment. Governmental Agencies enter into contracts with approved rehabilitation service providers for terms of three to four years. Such contracts set out the fees to be charged for various services. Governmental Agencies use a limited number of approved service providers, each of which operates under a similar contract and fee structure. A key determinant in referrals from Governmental Agencies is the ability of the clinic to effectively rehabilitate the worker in the quickest, most cost efficient manner. Better patient outcomes also contribute to increases in referrals from Governmental Agencies.

Other users of LifeMark Health's services include insurance companies (who are typically paying for the costs of rehabilitation of physical injuries resulting from motor vehicle accidents) and referrals from public health regions and employees.



*Business Overview* LMS is a Western Canadian concrete reinforcing steel ("rebar") contractor and fabricator. LMS fabricates and installs rebar for construction projects across Western Canada.

LMS is owned and operated by its founders who collectively have more than 50 years of experience in rebar installation. The company services the multi-unit residential construction market (such as condominium and apartment projects), large and small infrastructure projects, and commercial projects.

*Operations* LMS bids on contracts either directly to the project developer or through a general contractor. Approximately 90% of LMS's projects are fixed price or fixed unit price contracts based on drawings approved before the start of construction. Due to the larger number of projects being bid on at any given time, LMS outsources the estimation of rebar weight from project drawings to a company in India. Historically, management of LMS has considered this outsourcing arrangement to be a competitive advantage in obtaining accurate estimates at a low cost.

LMS operates out of a fabricating and warehousing yard near Vancouver and more recently, in Alberta. It has historically diversified its individual project risk by typically being involved in as many as 70 separate projects at a time. LMS has supply arrangements with a number of steel producers around the world. Historically, management of LMS believes that these direct relationships with a variety of mills has provided it with a competitive advantage in securing the best pricing for steel purchases. The company's long-standing relationship with the two bulk carrier port docks in the Vancouver area has also historically provided LMS with a competitive advantage.

*Customers* LMS typically works with approximately 200 separate customers. LMS has been involved in several high profile projects in the Vancouver area including bridge work on the Sea-to-Sky Highway between Vancouver and Whistler and the \$700 million expansion of the Vancouver Convention Centre.

LMS focuses on providing superior customer service and developing long-term relationships. Because a large percentage of the rebar business is based on fixed price or fixed unit price contracts, LMS considers an excellent relationship between the customer and the supplier to be an essential component of the business. Management of LMS believes that accurate and timely detailing,

together with the company's track record of completing projects on schedule, has contributed to much of LMS' historical growth.



*Business Overview*

Management of End of the Roll believes that the company is Canada's largest dedicated flooring retailer. The company 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. End of the Roll sells products primarily to consumers who are renovating their homes rather than consumers or builders involved in new home construction.

End of the Roll is the only national franchise system in the Canadian flooring industry. As master franchisor, End of the Roll's business model focuses on selling franchises and providing the required support services to franchisees in return for a royalty payment based on franchisee revenue. End of the Roll has 54 franchises with 22 locations in British Columbia, 17 locations in Ontario, 10 locations in Alberta, three locations in Saskatchewan, one location in Quebec and one in Manitoba.

End of the Roll began operations in 1990, when its founders identified an opportunity to sell flooring to budget minded customers by providing a large selection of merchandise at discount prices. Previously, retailers bundled flooring products with delivery and installation services. End of the Roll found that while full service retailing worked well for large area purchases, the model was inefficient for smaller area purchases, such as customers renovating a portion of their homes. End of the Roll began offering franchises in 1994 and has grown by an average of five stores per year since 1997. End of the Roll's headquarters is in Surrey, British Columbia, and it employs eleven people at its head office.

*Operations*

End of the Roll sells a variety of flooring products including carpets, laminates, vinyl, hardwood, ceramic, bamboo and cork flooring and area rugs. Under the terms of End of the Roll's franchise agreements, the selection of specific styles and quality is left to each franchisee, who makes purchases from a list of preferred vendors.

The majority of End of the Roll's stores are full size warehouse stores with approximately 8,000 to 10,000 square feet in size. In early 2002, End of the Roll developed an alternative store model more suited to a smaller market location. The new store models are approximately 5,000 square feet in size. Management of End of the Roll believes that the company's competitive advantage is provided by offering high quality flooring at prices that are lower than those available at its competitors. Customers also seek quality advice on how to select and install their flooring. End of the Roll controls the quality of its service through sales training and compensation programs.



*Business Overview*

MEDiChair stores sell home medical equipment such as wheelchairs, scooters, lift chairs, bathroom safety products, home accessibility solutions and personal health care products, such as wound care, compression and bracing to the aging, injured or disabled. MEDiChair and its predecessor companies have been in business since 1985 and have offered MEDiChair franchises since 1988. As master franchisor, MEDiChair's model focuses on selling franchises and providing

the required support services to its franchisees in return for a royalty payment based on franchisee revenue. MEDiChair currently has 67 locations with 450 employees system-wide in each of the regions of Canada other than Quebec. MEDiChair is headquartered in Calgary, Alberta and is a subsidiary of LifeMark Health.

*Operations* MEDiChair has 53 different franchisees, eleven of which have multiple locations, and owns 5 corporate stores. MEDiChair sells home medical equipment products that facilitate independence and improve an individual's ability to function with increased ease outside the hospital environment. MEDiChair services include education and caregiver training necessary for the successful use of equipment that may be prescribed by a physician or other professional healthcare worker for use in the home.

MEDiChair stores sell products within five major product categories: bathroom safety, mobility products, elevating devices, aids to daily living (including lift chairs, dressing aides and specialty utensils) and soft and disposable goods (including incontinence products and orthopaedic supports). A portion of the costs of many of MEDiChair's products are covered by provincial health plans or private insurance.

## **GENERAL DEVELOPMENT OF THE BUSINESS**

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### **GENERAL**

Alaris seeks to provide access to long-term equity capital to companies for whom traditional debt or private equity capital is not typically available or attractive, namely privately-held companies whose owners want to retain long-term control of their businesses. In pursuit of this strategy, our business planning considers the prevailing economic conditions, the evolving needs of our existing and potential Private Company Partners and our shareholders, and the opportunities available to us. Over the past three years, we have focused on positioning our business for improved growth and performance. Our approach has been to focus on optimally (1) providing long-term capital to a diversified group of profitable, well-managed private companies around the world (with a focus on North America), and (2) providing an attractive, predictable, stable and stable yield to our investors as well as providing liquidity.

### **THREE YEAR HISTORY**

Alaris was incorporated pursuant to the CBCA on May 23, 2006 on the Amalgamation of CanadaCo and 653Co. Following completion of the Amalgamation, the Corporation continued to use the name "6550568 Canada Inc." Alaris then sought new business opportunities and did not carry on any active business until May 2008.

On July 31, 2008, CanadaCo acquired Alaris Partnership (the "**Alaris Acquisition**"). Subsequent to the Alaris Acquisition, the former owners of Alaris Partnership held approximately 44.5% of the Common Shares and the Non-Voting Shares and provided Alaris Partnership's management.

On July 31, 2008, prior to the completion of the Alaris Acquisition, we satisfied the release conditions of a 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 \$12.00 per subscription receipt for aggregate gross proceeds of \$55,286,556.

On July 31, 2008, prior to the completion of the Alaris Acquisition, we also filed Articles of Amendment to: (i) change the Company's name from "6550568 Canada Inc." to "Alaris Royalty Corp."; (ii) consolidate all of the then issued and outstanding Common Shares and Non-Voting Shares on the basis of 542,245 pre-consolidation shares for one (1) new post-consolidation share; and (iii) convert all of the then issued and outstanding Non-Voting Shares, as of July 29, 2008, on a post-consolidation basis, into Common Shares on the basis of one (1) Common Share (on a post-consolidation basis) for every one (1) Non-Voting Share on a post-consolidation basis.

Pursuant to the Alaris Acquisition, we acquired: (i) the 750,000 issued and outstanding Partnership Units of Alaris Partnership held by Alaris Commercial Trust ("**ACT**"), a trust owned by the Partnership's largest unitholder, in

exchange for the issuance of 666,667 Common Shares; and (ii) all of the outstanding shares of AIC, the general partner of Alaris Partnership, from the holders thereof, being ACT and the members of management of AIC (and now Management of Alaris), in exchange for the issuance of 666,668 Non-Voting Shares (as herein defined). At the time of the Alaris Acquisition, AIC owned 750,010 Partnership Units, being the remaining issued and outstanding Partnership Units, and therefore, upon the completion of the Alaris Acquisition, we acquired directly and indirectly 100% of the issued and outstanding Partnership Units. In addition, we acquired \$83,500,000 of the Partnership's outstanding \$90,000,000 subordinated debt from Treherne for \$51,500,000 and the issuance of 2,666,667 Common Shares.

Upon the completion of the Alaris Acquisition and related matters, we continued the business and operations of Alaris Partnership, as more particularly described above under “*Description of the Business and Operations*”.

On October 12, 2008, we completed a one (1) for fifty (50) consolidation of our outstanding Common Shares, which resulted in shareholders who held less than 50 pre-consolidation Common Shares ceasing to hold Common Shares and becoming entitled to receive \$12.00 per pre-consolidation share. Immediately following the consolidation, the outstanding post-consolidation shares were subdivided on a fifty (50) for one (1) basis. The share consolidation and split resulted in 29,914 Common Shares held by approximately 5,000 shareholders being cancelled, which materially improved our administrative costs and efficiencies.

On November 18, 2008, our Common Shares were listed and posted for trading on the TSX under the symbol “AD”.

In late 2008 and 2009, we operated under challenging credit, economic and capital markets that affected private equity companies around the world. Late in its fiscal year 2008, one of our Private Company Partners, LMS, experienced a dramatic shift in its business that included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was that LMS incurred material bad debt expenses, for the first time in its operating history, which dramatically decreased its reported gross profit for 2008 and 2009. On March 12, 2009, in response to the current economic conditions, in particular such conditions affecting LMS, we reduced our monthly dividend to \$0.07 per Share from \$0.12. Despite this action, we have maintained our focus on our vision and we believe we are well-positioned as economic conditions improve.

On March 11, 2009, Alaris Income Growth Fund L.P. was converted into a general partnership from a limited partnership and changed its name to Alaris Income Growth Fund Partnership.

On July 31, 2009, we acquired additional preferred partnership units in one of our Private Company Partners, LifeMark Health for an aggregate purchase price of \$1,000,000. These additional partnership units provide for the payment of \$181,818 to us in additional distributions in the first twelve months from the date of their issue.

On October 22, 2009, we closed a short-form prospectus offering of Units (the “**Offering**”) on a bought-deal basis. The Offering consisted of 2,300,000 Units (of which 300,000 were issued pursuant to an over-allotment option granted to the unit holders that was exercised in full) issued at a price of \$6.00 per Unit. Each Unit consisted of one Common Share and one half of a common share purchase warrant (“**Warrant**”). Each Warrant entitles the holder to subscribe for one additional Common Share at a price of \$7.50 per Common Share (see “*Description of Capital Structure – Warrants*” for additional information about the Warrants). We contributed \$12,000,000 of the net proceeds of the Offering to LifeMark Health in support of its growth program, in exchange for additional preferred partnership units in LifeMark Health. These additional partnership units provide for the payment of to us \$2,181,818 in additional distributions in the first twelve months from the date of their issue.

In December 2009, HSBC Bank Canada and the Bank of Montreal, as co-lead arrangers of our current credit facility, extended our existing credit facility (the “**HSBC/BMO Credit Facility**”) until December 20, 2010 and issued a waiver letter having the effect of amending the calculation of certain financial covenants under our credit facility. This letter clarified the expectation of the parties that, effective as of December 19, 2009, (i) specified non-cash and extraordinary expenses were to be excluded from the calculation of certain financial covenants; and (ii) revenues from any one permitted investment (as defined in our credit facility) are permitted to exceed 50% of our total revenues. The letter did not relate to a breach of our credit facility. In addition, we agreed to prepay our lenders the sum of \$950,000 per quarter under our credit facility, up to and including September 30, 2010.

## OUR FINANCING ARRANGEMENTS

The following table shows the relevant performance metric for each of our Private Company Partners, the Distributions paid to us by each of our Private Company Partners in their last three fiscal years, and the percentage change in such Private Company Partner's performance metric in each of those years. Also included is each Private Company Partner's Earnings Coverage Ratio for each of their last three fiscal years.

PRIVATE COMPANY PARTNER	PERFORMANCE METRIC - DEFINITION	Year End	ANNUAL DISTRIBUTIONS TO ALARIS <sup>(5)</sup>	ANNUAL % CHANGE IN PERFORMANCE METRIC <sup>(5)</sup>	ANNUAL EARNINGS COVERAGE RATIO <sup>(2)</sup>
LIFEMARK HEALTH	"Same Clinic Sales" – LifeMark Health's annual revenues from clinics that have been open for at least 2 years, for the previous year	12/31/2009	\$8.4 million	To be determined <sup>(3)</sup>	1.17
		12/31/2008	\$7.5 million	5.63%	1.05
		12/31/2007	\$7.3 million	3.1%	1.08
LMS	"Gross Profit" – LMS' net sales less its cost of sales for the applicable fiscal year. Net sales include all sales (including brokerage sales) net of bad debts and sales credits	09/30/2009	\$7.6 million <sup>(1)</sup>	To be determined <sup>(3)</sup>	0.21 <sup>(4)</sup>
		09/30/2008	\$7.1 million <sup>(1)</sup>	(23.3%)	2.34
		09/30/2007	\$0.82 million <sup>(1)</sup>	42.8%	11.79
END OF THE ROLL	"Same Store Sales" – 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	04/30/2009	\$1.46 million	(7.41%)	1.11
		04/30/2008	\$1.40 million	4.45%	1.33
		04/30/2007	\$1.29 million	7.93%	1.33
MEDICHAIR	"Same Store Royalties" – total annual royalties from all franchisees whose retail stores have been opened for at least two years, over the fiscal year immediately preceding the fiscal year end	09/30/2009	\$1.14 million	To be determined <sup>(3)</sup>	Included in LifeMark's Ratio
		09/30/2008	\$1.12 million	4.12%	
		09/30/2007	\$1.0 million	6.15%	

Note 1. The annual distribution from LMS includes both portions payable on January 1 and April 1. See "Our Financing Arrangements-LMS" above for further information.

Note 2. The Annual Earnings Charge Ratio is used by management to evaluate a Private Company Partner's ability to pay our Distributions. It is defined as EBITDA divided by interest, principal repayments, maintenance capital expenditures and distributions to Alaris. Such Ratio indicates the number of times a Private Company Partner's fixed commitments can be covered by such Private Company Partner's earnings. As a failure to meet such commitments would mean a default under the terms of any such commitment, this ratio indicates the available margin of safety, and therefore, the risk involved in determining a Private Company Partner's ability to pay its commitments when business activity falls. A ratio of 1.0 or higher is generally considered sufficient by Management to demonstrate a company's ability to pay its distributions to Alaris.

- Note 3. As of the date of this AIF, Management had not received audited financial statements from LifeMark, LMS and MEDiChair. Such statements will be provided to Management after the date of this AIF in accordance with a predetermined schedule, and Management will then be able to determine the annual % change in each such company's performance metric.
- Note 4. Although LMS' Earnings Coverage Ratio for its year ended September 30, 2009 was significantly less than 1.0, Management has determined that LMS has sufficient cash on hand to pay the next twelve months of distributions to Alaris.
- Note 5. The amounts reported as Annual Distributions to Alaris reflect the distributions received by Alaris up to and including the end of each fiscal year for each Private Company Partner. The Annual % Change in Performance Metric reflects a change in the relevant performance metric at the end of each such fiscal year. Such percentage change affects the annual distributions to Alaris in the next fiscal year of the Private Company Partner.

As of the date of this AIF, all of our Private Company Partners were in material compliance with the terms of their agreements with Alaris. Of all of our arrangements with our Private Company Partners, our material agreements consist of our partnership agreement with LifeMark Health (the "**LifeMark Partnership Agreement**") and our partnership agreement with LMS (the "**LMS Partnership Agreement**"). Below is a summary of the LifeMark Partnership Agreement and the LMS Partnership Agreement.

### *LifeMark Health*

Alaris currently holds 900,000 class A preferred partnership units ("**LifeMark A Units**") and 3,850,000 class B preferred partnership units ("**LifeMark B Units**") in LifeMark Health. There are currently no other LifeMark A Units or LifeMark B Units issued and outstanding.

Pursuant to the LifeMark Partnership Agreement, the LifeMark A Units entitle Alaris to receive an annual preferred distribution (the "**A Unit Preferred Distribution**") in priority to distributions on LifeMark Health's other partnership units. The minimum is adjusted in each 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. In addition, the LifeMark B Units entitle Alaris 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.

LifeMark Health has the option at any time after December 30, 2009 to repurchase all (but not less than all) of the LifeMark A and B Preferred Units (collectively, the "**LifeMark Preferred Units**") at a pre-negotiated premium to the original purchase price (the "**LifeMark Repurchase Amount**"). As of the date hereof, Alaris is not aware of any intention of LifeMark to exercise this repurchase right. In addition, on a liquidation or dissolution of LifeMark Health where there is no event of default, Alaris is entitled to receive an amount equal to the LifeMark Repurchase Amount in respect of the LifeMark Preferred Units in priority to holders of other units, but subject to LifeMark Health's senior creditors. If there is a liquidation or dissolution after an event of default, Alaris is entitled to receive a pre-negotiated premium above the LifeMark Repurchase Amount in priority of holders of other units, but subject to LifeMark Health's senior creditors.

Pursuant to the LifeMark Partnership Agreement, other than in respect of certain preferred unit veto matters described below, the LifeMark Preferred Units do not entitle the Company to any voting rights. The approval of Alaris is required for the following matters (collectively, the "**Preferred Unit Veto Matters**"): (i) adding, changing or removing the rights, privileges, restrictions or conditions attaching to the LifeMark Preferred Units; (ii) increasing the rights or privileges attaching to other partnership units; (iii) creating additional classes of partnership units; (iv) amending the LifeMark Partnership Agreement in any manner adverse to the holders of LifeMark Preferred Units; (v) undertaking any direct or indirect acquisition or merger or any sale or other divestiture for consideration in excess of a pre-determined amount; (vi) any transfer of partnership units by an initial limited partner; (vii) any transfer of shares of the general partner; (viii) any non-arm's length transaction in excess of a pre-determined amount; or (ix) dissolving LifeMark Health. In the event of certain material defaults including non-payment of distributions, the LifeMark Preferred Units become voting units and Alaris is entitled to appoint one (1) director to the general partner of LifeMark Health.

LifeMark Health must also provide regular financial and operating information to Alaris on a monthly and annual basis. This information is used by Alaris to verify distribution calculations and monitor LifeMark Health's compliance with the terms of its agreements with Alaris.

For so long as Alaris is the holder of any LifeMark Preferred Units, Alaris is entitled to appoint one director to the board of directors of the general partner of LifeMark Health. Steve King is currently a director of the general partner of LifeMark Health.

### ***LMS***

Alaris holds 510,000 preferred partnership units ("**LMS Preferred Units**") in LMS. There are currently no other LMS Preferred Units issued and outstanding.

Pursuant to the LMS Partnership Agreement, the LMS Preferred Units entitle Alaris to receive an annual preferred distribution (the "**LMS Preferred Distribution**") in priority to distributions on LMS' other partnership units. Commencing December 21, 2007 Alaris 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 on January 1 and April 1 in each subsequent twelve-month period to the LMS Preferred Distribution for the prior twelve-month period multiplied by the percentage increase or decrease in LMS' Gross Profit for the most recently completed fiscal year.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Preferred Units at a pre-negotiated premium to the original purchase price (the "**LMS Repurchase Amount**"). As of the date hereof, Alaris is not aware of any intention of LMS to exercise this repurchase right. In addition, on a liquidation or dissolution of LMS, Alaris is entitled to receive a preferred liquidation entitlement in respect of the LMS Preferred Units, in priority to the holders of the other partnership units, in an amount equal to the LMS Repurchase Amount.

Other than in respect of certain preferred unit veto matters as described below, the LMS Preferred Units do not entitle the Company to any voting rights. Pursuant to the LMS Partnership Agreement, the approval of Alaris is required for the following matters (the "**LMS Preferred Unit Veto Matters**"): (i) adding, changing or removing the rights, privileges, restrictions or conditions attaching to the LMS Preferred Units in any manner adverse to the holder of the LMS Preferred Units; (ii) changing the rights or privileges attaching to the voting partnership units in any manner adverse to the holder of the LMS Preferred Units; (iii) amending the LMS Partnership Agreement in any manner adverse to the holder of LMS Preferred Units; (iv) undertaking any direct or indirect acquisition, disposition or merger or any sale or other divestiture or undertaking any other transaction outside the ordinary course of business for a value in excess of a specified amount; (v) transfers of voting partnership units by the initial limited partner; (vi) transfer of shares of the general partner of LMS; (vii) redeeming any units of LMS or the share capital of the general partner, as the case may be, or any change in ownership of either LMS or the general partner; (viii) any transfer of shares of the general partner of LMS that result in a change of control of the general partner; (ix) amending the term or provisions of any confidentiality, non-solicitation and non-competition covenants contained in employment agreements with LMS's senior management; (x) non arm's length transaction exceeding a specified amount; (xi) encumbrance of assets other than as permitted under the LMS Partnership Agreement; (xii) any encumbrance of assets other than in respect of securing bona fide indebtedness otherwise permitted under the LMS Partnership Agreement; (xiii) any material change in the business outside the ordinary course of business; (xiv) incurring any indebtedness in excess of a specified amount; (xv) any capital expenditures or series of related capital expenditures outside the ordinary course of business in excess of a specified amount in any fiscal year; or (xvi) dissolving LMS; or (xvii) exceeding certain financial covenants. Upon the occurrence of certain material events of default, the LMS Preferred Units will be redeemed at a pre-negotiated amount equal to the LMS Repurchase Amount. In addition, the LMS Preferred Units become entitled to voting rights until such time as they are redeemed.

LMS must also provide regular financial and operating information to Alaris on a monthly and annual basis. This information is used by Alaris to verify distribution calculations and monitor LMS' compliance with the terms of its agreements with Alaris.

### ***End of the Roll & MEDChair***

Our arrangements with both End of the Roll and MEDiChair consist of the licensing of certain intellectual property to each company which intellectual property was originally purchased by us from each such company. The intellectual property purchased from End of the Roll includes End of the Roll's trademarks, trade names, website and proprietary system for operating franchises (the "ER IP"). The intellectual property purchased from MEDiChair consists of MEDiChair's trademarks, trade names, website and proprietary system for operating franchises (the "MEDiChair IP"). We licensed the ER IP to End of the Roll, and the MEDiChair IP to MEDiChair for a term of 80 years pursuant to license agreements with each company in consideration of an annual royalty based on same store sales and annual adjustments therein, in End of the Roll's case, and same store royalties and annual adjustments therein, in MEDiChair's case.

Both End of the Roll and MEDiChair have the option after a specified point in time to repurchase the intellectual property licensed to them by Alaris at a pre-negotiated premium from the original purchase price. In addition, if there is a material breach by either company of their agreements with Alaris, each company is required to pay us a pre-negotiated amount. As of the date hereof, Alaris is not aware of any intention of either End of the Roll or MEDiChair to exercise their repurchase rights.

The obligations and liabilities of End of the Roll and MEDiChair to Alaris are collateralized by a general security agreement, pursuant to which each company has granted to Alaris a security interest in their respective personal property and a floating charge on their respective real property, subject to certain permitted encumbrances including encumbrances in favour of each such company's principal lenders and a permitted amount in additional obligations.

Alaris' agreements with End of the Roll and MEDiChair contain representations and warranties by each such company in favour of Alaris with respect to them and their business and, together with various positive and negative covenants including, for example, undertaking material acquisitions or dispositions, incurring debt above permitted levels, paying dividends or other distributions, entering into non-arm's length transactions or completing mergers or reorganizations. Each company must also provide regular financial and operating information to Alaris on a monthly and annual basis, which information is used by Alaris to verify royalty calculations and monitor each company's compliance with the terms of its agreements with Alaris.

## **RISK FACTORS**

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An investment in our securities involves a number of risks. The risks and uncertainties described below are all of the risks that we know about and that we have deemed to be material to our business or results of our operations. When reviewing forward-looking statements and other information contained in this AIF, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect our future results. We assume no obligation to update or revise our forward-looking statements or other information contained in this AIF to reflect new events or circumstances, except as may be required by law.

We have organized our risks into the following categories:

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

### **STRATEGIC RISK FACTORS RELATING TO OUR BUSINESS**

#### ***We have limited diversification in our Private Company Partners***

Alaris does not have stringent fixed guidelines for diversification with respect to our Private Company Partners. At any given point in time, we may have a significant portion of our assets dedicated to a single business or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, this could have a material adverse effect on our business, results from operations and financial condition.

***We depend upon our Private Company Partners, and in particular, on LifeMark Health as our largest partner***

We are entirely dependent on the operations and assets of our Private Company Partners through our agreements with them. Our ability to pay dividends, to satisfy our debt service obligations and to pay our operating expenses is dependent on the Distributions received from our Private Company Partners, our sole source of cash flow. Distributions to Alaris from our Private Company Partners are generally based on a percentage of the Private Company Partner'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 Private Company Partner declines with respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any Private Company Partner to fulfill its distribution obligations to Alaris could materially adversely affect our financial condition and cash flows.

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

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

There is generally no publicly available information, including audited or other financial information about our Private Company Partners and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, although our Private Company Partners are required to provide Alaris with regular financial and operating information on a monthly and annual basis pursuant to our agreements with them, investors must rely on Alaris and its management and consultants to investigate and monitor the Private Company Partners. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by Alaris. See "*Risk Factors Relating to our Private Company Partners*".

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

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

***We may be adversely affected by general economic conditions***

Our business and the business of each of the Private Company Partners are subject to changes in national or North American economic conditions, including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. 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 continued 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 and renewed optimism reflected in the stock markets in the latter part of 2009 and 2010, concerns remain about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions. 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 our and our Private Company Partners' business, financial condition, results of operations and cash flows.

***We are subject to risks affecting any new Private Company Partners***

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

***We face competition with other investment entities***

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

***Our ability to manage future growth may have an adverse effect on our business***

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

## **OPERATIONAL AND FINANCIAL RISK FACTORS RELATING TO OUR BUSINESS**

***We are subject to tax related risks***

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

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

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

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

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

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

The payout by Alaris of substantially all of our operating cash may make additional investment capital and operating expenditures dependent on increased cash flow or additional financings in the future. Alaris will require equity or debt financing in order to acquire interests in new Private Company Partners or make additional investments in the initial Private Company Partners. There can be no assurance that such financing will be available when required or on commercially favourable terms which could limit our growth. The ability of Alaris to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance.

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

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

***We and our Private Company Partners rely heavily on key personnel***

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

***As a public company, we are subject to significant regulation***

Alaris and the Private Company Partners 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 Private Company Partners' 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 Private Company Partners to predict the cost or impact of such laws and regulations on their respective future operations.

***Our private company partners have termination rights which may be exercised***

Each of our Private Company Partners has the right to terminate their agreement with Alaris through a repurchase or redemption right that arises after a fixed period of time following the closing of our arrangement with the applicable

Private Company Partner. Although Management believes that the repurchase or redemption purchase price would adequately compensate Alaris for the foregone payments, we would be required to reinvest the cash received including possibly investing in our own shares through the repurchase and cancellation of our Common Shares or Non-Voting Shares, in order to maintain our dividend levels. There is no assurance that we would be able to successfully identify and complete any such alternative investments or complete any such share repurchase.

***Alaris Management has limited public company experience***

Until the date of the Offering, Management's collective experience operating a public company was limited. Although Management's experience is improving, it is still limited. To operate effectively, we will be required to continue to implement changes in certain aspects of our business, improve and expand our management information systems and develop, manage and train management level and other employees, to comply with on-going reporting issuer requirements. Failure to take such actions, or delay in the implementation thereof, could adversely affect our business, financial condition, liquidity and results of operations.

***Our share price is unpredictable and can be volatile***

A publicly traded corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements we make, general economic conditions, and other factors. In addition, during late 2008 and continuing through 2009, the securities markets experienced significant market-wide and sectoral price and volume fluctuations. Such fluctuations may adversely affect the market price of the Common Shares.

***There is no market for our warrants***

The Warrants are not listed for trading on any stock exchange and there is currently no market through which the Warrants may be sold. As a result, Warrant holders may not be able to resell the Warrants that they purchased under the Offering. This may affect the pricing of the Warrants in the secondary market, the transparency and availability of trading prices, the liquidity of the Warrants and the extent of issuer regulations.

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

The amount of dividends paid by us will depend upon numerous factors, including 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 our control. Dividends are not guaranteed and will fluctuate with our performance and the performance of our Private Company Partners. There can be no assurance as to the levels of dividends to be paid by us, if any. Alaris will also incur expenses as a public issuer. Should any estimate of such expenses prove inadequate or if unanticipated public issuer expenses are incurred, it would reduce cash available for payment of dividends. The market value of the Common Shares may deteriorate if we are unable to pay dividends in accordance with our dividend policy in the future, and such deterioration may be material.

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

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

### ***We are subject to a risk of legal proceedings***

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

### ***Our capacity to protect our intellectual property may be limited***

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

### ***Our directors may have 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 are parties to a material contract or proposed material contract with Alaris 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 Alaris.

### ***We may issue additional Common Shares diluting existing Shareholders' interests***

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

## **RISKS RELATING TO OUR PRIVATE COMPANY PARTNERS**

### **Risks relating to our Material Private Company Partners**

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

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

*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.

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

*Confidentiality* The collection, use and disclosure of patient personal and health information are subject to

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

### ***Risks Relating Specifically to LMS***

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

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

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

*General Economic Conditions Affecting LMS* Market events and conditions beginning in 2008, including disruptions in the international credit markets and other financial systems have resulted in a deterioration of global economic conditions and have had a negative effect on LMS' operations. Specifically, LMS experienced a dramatic shift in its business late in its fiscal 2008 year that included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was that LMS incurred material bad debt expenses for the first time in its operating history, that decreased its reported gross profit for 2008 and a significant drop in its gross profit in 2009. The decline was based on both reduced volumes caused by the economic environment and credit crisis as well as by temporarily depressed margins that were caused by high priced inventory that resulted from cancelled projects. As a result of these factors, LMS' distribution to Alaris in 2010 will decrease. Although LMS' gross profits are improving as LMS has worked through its high-priced inventory and has since realized on some of its material bad debt expenses, these factors may continue to have a negative impact on LMS' business, financial condition, results of operation and cash flows and could have a material adverse effect on Alaris.

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

*Labour Relations Risk* Approximately one-half of LMS's employees are unionized or governed by collective trade agreements. Labour disruptions could adversely affect LMS's business; however, LMS these agreements are with multiple union locals within diverse regions.

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

### **Risks relating to all of our Private Company Partners, generally**

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

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

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

#### ***Our Private Company Partners face intense competition***

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

#### ***Our Private Company Partners may suffer damage to their brand reputations***

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

#### ***Additional franchises and franchise operations may be limited***

Two of our Private Company Partners, 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 dependent 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.

#### ***Our Private Company Partners rely on key personnel***

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

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

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

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

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

## **DIVIDENDS**

In deciding to pay dividends on our Shares, our Board considers our earnings, financial requirements and any other relevant conditions existing at declaration time, as well as any dividend policy it may have implemented. Any dividend policy established by our Board can be changed at any time and is not binding on us.

Our revolving credit facility and subordinated loan facility agreements limit our ability to pay dividends in certain circumstances. Accordingly, our ability to pay dividends depends upon, among other things, our level of indebtedness at the time of the proposed dividend and whether we are in compliance with such agreements. Our ability to pay dividends also depends upon, among other things, the financial performance of our Private Company Partners. There is no certainty that we will declare and pay any dividends at any time.

In August 2008, our Board approved a dividend policy to review dividends on a quarterly basis and to declare and pay dividends on the Common Shares and Non-Voting Shares on a monthly basis, provided specific financial and other conditions have been met by Alaris. On March 12, 2009, in response to the prevailing economic conditions, in particular such conditions affecting LMS, our Board decided to reduce our monthly dividend to \$0.07 per Share from \$0.12 per Share, beginning with the dividend payable on April 15, 2009 to holders of Shares of record at the close of business on March 31, 2009.

The following table describes the dividends declared and paid by us since the Alaris Acquisition and up to the date of March 15, 2010:

<b>Dividend Payment Date</b>	<b>Amount per Share</b>	<b>Record Date</b>
September 15, 2008	\$0.12/Share	August 31, 2008
October 15, 2008	\$0.12/Share	September 30, 2008

November 15, 2008	\$0.12/Share	October 31, 2008
December 15, 2008	\$0.12/Share	November 31, 2008
January 15, 2009	\$0.12/Share	December 31, 2008
February 15, 2009	\$0.12/Share	January 31, 2009
March 15, 2009	\$0.12/Share	February 28, 2009
April 15, 2009	\$0.07/Share	March 31, 2009
May 15, 2009	\$0.07/Share	April 30, 2009
June 15, 2009	\$0.07/Share	May 29, 2009
July 15, 2009	\$0.07/Share	June 30, 2009
August 17, 2009	\$0.07/Share	July 31, 2009
September 15, 2009	\$0.07/Share	August 31, 2009
October 15, 2009	\$0.07/Share	September 30, 2009
November 16, 2009	\$0.07/Share	October 30, 2009
December 15, 2009	\$0.07/Share	November 30, 2009
January 15, 2010	\$0.07/Share	December 31, 2010
February 15, 2010	\$0.07/Share	January 29, 2010
March 15, 2010	\$0.07/Share	February 26, 2010

## **DESCRIPTION OF CAPITAL STRUCTURE**

Alaris is authorized to issue an unlimited number of Common Shares and Non-Voting Shares and 1,150,000 Warrants for unlimited consideration. As of the date of this AIF, 10,968,737 Common Shares, 666,665 Non-Voting Shares, and 982,750 Warrants were outstanding as fully paid and non-assessable. Since January 1, 2010, 167,250 Warrants have been exercised at \$7.50 per Warrant. In addition, as of the date hereof, there were stock options outstanding to acquire 319,150 Common Shares pursuant to our stock option plan (the “**Option Plan**”), and there were restricted share units outstanding entitling the holders thereof to receive an aggregate of 384,400 Common Shares pursuant to our restricted share unit plan (the “**RSU Plan**”) upon the satisfaction of certain vesting criteria.

The following describes the material provisions of our Common Shares, Non-Voting Shares and Warrants.

### **COMMON SHARES**

The material characteristics of the Common Shares are as follows:

- a) Each Common Share carries the right to attend at Shareholder meetings and to one vote on each resolution voted on at a Shareholders’ meeting;
- b) holders of Common Shares are entitled to receive dividends when declared by the Board. However, no dividend may be declared on the Common Shares unless the same dividend is also declared concurrently on the Non-Voting Shares; and
- c) in the event of liquidation, dissolution or winding-up, or any other distribution of our assets among our Shareholders, holders of Common Shares are entitled to share rateably in such assets as are available for distribution.

### **NON-VOTING SHARES**

The material characteristics of the Non-Voting Shares are as follows:

- a) holders of Non-Voting Shares are entitled to receive notice of and to attend any meeting of the Shareholders provided that, except as required by law, the holders of the Non-Voting Shares are not entitled to vote at any such meeting;

- b) holders of Non-Voting Shares are entitled to receive dividends as and when declared by our Board. However, no dividend may be declared on the Non-Voting Shares unless the same dividend is also declared concurrently on the Common Shares;
- c) in the event of any liquidation, dissolution or winding-up of Alaris, or any other distribution of our assets among our Shareholders, holders of Non-Voting Shares are entitled to share rateably in such assets as are available for distribution; and
- d) if an offer is made to purchase Common Shares which, by reason of applicable securities legislation or by-laws, regulations or policies of a stock exchange require that the offer be made to each holder of Common Shares, holders of Non-Voting Shares have the option to require Alaris to redeem their Non-Voting Shares, upon written notice in accordance with the terms of the Non-Voting Shares. This redemption right will not come into effect in certain circumstances that are more particularly outlined in the terms of the Non-Voting Shares.

## **WARRANTS**

The material characteristics of the Warrants are as follows:

- a) The Warrants were issued on October 22, 2009 in connection with the Offering. Each Warrant is transferable and entitles the Warrantholder to purchase one Common Share at a price of \$7.50 at any time up to 5:00 p.m. (Calgary time) on October 21, 2011, after which time the Warrants will expire. The Warrants are subject to a mandatory exercise if, any time after October 21, 2010, the volume weighted average price of the Common Shares on the TSX is above \$9.00 per Common Share for twenty (20) consecutive trading days. Alaris has appointed the principal transfer offices of the Warrant Agent in Calgary, Alberta and Toronto, Ontario as locations at which the Warrants may be surrendered for exercise, transfer or exchange. Warrantholders should contact the registered dealer or broker through which such Warrantholder purchased their Warrants for instructions on how to exercise the Warrants held by them. Under the Warrant Indenture, a copy of which is available to holders of Warrants upon request to Alaris, Alaris may from time to time purchase (by invitation for tender, in the open market, by private contract on any stock exchange or otherwise) any of the Warrants then outstanding, and any Warrants so purchased will be cancelled. A holder of a Warrant does not have the right to vote at, to receive notice of, or to attend meetings of shareholders or any other proceedings of Alaris or the right to receive dividends or other distributions.
- b) The Warrant Indenture provides for adjustment in the number of Common Shares issuable upon the exercise of the Warrants and/or the exercise price per Common Share upon the occurrence of certain events as more particularly described in the Warrant Indenture, including but not limited to the declaration of stock dividends; the consolidation or subdivision of Common Shares; the issuance of certain rights, options or Warrants to Common Shareholders; amalgamations, arrangements or mergers of Alaris with any other entity; and the transfer, sale or other conveyance of all of Alaris' assets or business to another entity in exchange for shares of such entity. No adjustment in the exercise price or the number of Common Shares is required to be made unless the cumulative effect of such adjustment or adjustments would result in a change of at least 1% in the exercise price or a change in the number of Common Shares purchasable upon exercise by at least one-one hundredth of a Common Share, as the case may be.

## **MARKET FOR SECURITIES AND PRIOR SALES**

### **TRADING PRICE AND VOLUME**

The Common Shares are listed and posted for trading on the TSX under the symbol "AD". The following table describes the price range and trading volume of the Common Shares (as reported by the TSX) for 2009 and 2010 up to the date of this AIF:

Common Shares
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	Price Range		Volume
	High (\$/share)	Low (\$/share)	
January, 2009	9.98	9.00	45,307
February, 2009	9.40	8.25	28,187
March, 2009	8.00	3.70	102,901
April, 2009	6.00	4.40	131,164
May, 2009	7.00	6.00	18,957
June, 2009	7.10	5.95	28,241
July, 2009	7.00	6.01	43,065
August, 2009	6.85	6.40	13,930
September, 2009	6.99	5.98	41,120
October, 2009	8.00	6.03	269,406
November, 2009	8.75	6.90	379,808
December, 2009	9.15	7.55	51,924
January, 2010	9.99	8.55	77,421
February, 2010	9.25	8.75	122,423
To March 10, 2010	9.30	8.95	169,183

**Notes:**

The Common Shares were listed and posted for trading on the TSX on November 18, 2008.

**PRIOR SALES**

The Non-Voting Shares and the Warrants are not listed or posted for trading on any stock exchange. On October 22, 2009, Alaris completed the Offering and in connection with the Offering, issued 2,300,000 common shares and 1,150,000 Warrants for gross proceeds of \$13,800,000. The Corporation has since received \$1,184,250 in proceeds as a result of Warrantholders exercising 157,900 Warrants. In January, 2010, 27,500 warrants were exercised. In February, 2010, 130,400 warrants were exercised.

No Non-Voting Shares were issued during the year ended December 31, 2009 or up to an including the date of this AIF.

**DIRECTORS AND EXECUTIVE OFFICERS OF ALARIS**

**DIRECTORS AND OFFICERS**

The following people are the directors and executive officers of Alaris as of December 31, 2009.

Name and Jurisdiction of Residence	Office Held	Director Since	Principal Occupation or Employment and Occupation during the Past Five Years
Jack C. Lee Calgary, Alberta Canada	Board Chairman	July 31, 2008	Mr. Lee is President of Facet Resources Ltd., a private investment company. In May 2008 he became Chairman of Sprott Inc., prior thereto he was Vice Chairman of Penn West Energy Trust, Chairman of Canetic Resources Trust and President and Chief Executive Officer of Acclaim Energy Trust. Mr. Lee is also on the board of Ithaca Energy Inc. and three private oil and gas companies, Gryphon Petroleum Corp., Darian Resources Ltd. and CanEra Resources Inc.

Name and Jurisdiction of Residence	Office Held	Director Since	Principal Occupation or Employment and Occupation during the Past Five Years
<b>Clay Riddell</b> Calgary, Alberta Canada	Director	July 31, 2008	Mr. Riddell has been the Chairman of the Board and Chief Executive Officer of Paramount Resources Ltd. since 1978. He is the Chairman of the Board of Paramount Energy Operating Corp., a wholly-owned subsidiary of Paramount Energy Trust, and Trilogy Energy Ltd., a wholly owned subsidiary of Trilogy Energy Trust. Mr. Riddell was previously on the board of directors of Newalta Income Fund and its wholly-owned subsidiary, Newalta Corporation.
<b>Mitch Shier</b> Calgary, Alberta Canada	Director	July 31, 2008	Mr. Shier is General Counsel, Corporate Secretary and Manager, Land of Paramount Resources Ltd., which he joined in November, 2008. From 2002 until January 2009 Mr. Shier practiced oil and gas and commercial law as a partner with Heenan Blaikie LLP, (a national law firm) and remains of counsel with that firm. Mr. Shier is also a director of Trilogy Energy Ltd., a wholly-owned subsidiary of Trilogy Energy Trust.
<b>Mary Ritchie</b> Edmonton, Alberta Canada	Director	July 31, 2008	Ms. Ritchie is President and Chief Executive Officer of Richford Holdings Ltd., an accounting and investment advisory services company. Ms. Ritchie is a member of the Canadian Institute of Chartered Accountants, and a Fellow of the Institute of Chartered Accountants of Alberta. Ms. Ritchie is the Chairman of the Audit Committees of RBC Funds Inc. and RBC Advisor Global Fund Inc.. She is also a member of the Board of Directors of Industrial Alliance Ltd.
<b>John P.A. Budreski</b> Toronto, Ontario Canada	Director	July 31, 2008	On March 23, 2009, Mr. Budreski became a Managing Director with Cormark Securities Inc. Prior thereto Mr. Budreski was an independent businessman and also Advisor – Special Projects with Tricor Pacific Capital, Inc., a private equity firm based in Vancouver, British Columbia. Prior thereto, Mr. Budreski was the Chief Executive Officer of Orion Securities Inc. prior to its sale to the Macquarie Group. Prior thereto, Mr. Budreski was a Managing Director at Scotia Capital Inc.
<b>Stephen King</b> Calgary, Alberta Canada	President, Chief Executive Officer and a Director	July 31, 2008	Prior to joining Alaris in July 2008, Mr. King was and continues to be the President and Chief Executive Officer of Alaris IGF Corp. and its predecessor since April 2004. Prior thereto, Mr. King spent 12 years in the investment banking industry and is a Certified Financial Analyst. Mr. King is a director of Metropolitan Investment Corporation, a private investment company and a director of the general partner of LifeMark Health.
<b>Gary Patterson</b> Kelowna, British Columbia Canada	Director	July 31, 2008	Since June 2003 Mr. Patterson has been the President and Chief Executive Officer of GAP Financial Ltd., a British Columbia based company which provides financial and business advisory services to corporations. Mr. Patterson also sits on the board of Seacliff Construction Corp., a diversified construction company providing general contracting and electrical contracting services to public and private sector clients. In addition, he was previously on the board of trustees of Art In Motion Income Fund and SUMMIT Real Estate Investment Trust and the board of directors of EarthFirst Canada Inc. Mr. Patterson is also a Fellow of the Institute of Chartered Accountants of British Columbia.

Name and Jurisdiction of Residence	Office Held	Director Since	Principal Occupation or Employment and Occupation during the Past Five Years
<b>Darren Driscoll</b> Calgary, Alberta Canada	Chief Financial Officer	n/a	Prior to joining Alaris in July 2008, Mr. Driscoll was and continues to be the Chief Financial Officer of Alaris IGF Corp. and its predecessor since November 2004. Before joining Alaris, Mr. Driscoll was the Chief Financial Officer of the Canadian Association of Petroleum Producers, the industry association for the upstream oil and natural gas industry in Canada, from 1996 to 2004. Mr. Driscoll is a Chartered Accountant.
<b>Rachel Colabella</b> Calgary, Alberta Canada	Corporate Secretary	n/a	Prior to joining the Corporation in September of 2008, Ms. Colabella worked at Armstrong Osinski (law firm), Burnet Duckworth and Palmer LLP (law firm) and Ernst & Young LLP (Chartered Accountants) where she worked with their tax groups. Ms. Colabella has over 12 years of experience as a tax lawyer. Ms. Colabella is a lawyer licensed to practice law in Alberta.
<b>Stephen Reid</b> Calgary, Alberta Canada	Vice President	n/a	Mr. Reid is a Calgary based independent businessman with a variety of diversified holdings and investments and is currently the President of Group West Corporation and Creative Restaurants Inc.

Directors of Alaris are elected annually and hold office until the next annual meeting of Shareholders.

#### **COMMITTEE MEMBERS**

There are two committees of the Board made up of the following members:

- 1) Audit Committee: Mary Ritchie (Chair); Jack C. Lee; and Gary Patterson.
- 2) Compensation & Governance Committee: John P.A. Budreski (Chair, Compensation Matters); Mitch Shier (Chair, Governance Matters); and Clay Riddell.

#### **SHAREHOLDINGS OF DIRECTORS AND EXECUTIVE OFFICERS**

As of the date hereof, the directors and executive officers of Alaris, as a group, beneficially own, control or direct, directly or indirectly, 4,077,400 Common Shares or 37.8% of the issued and outstanding Common Shares, and 380,000 Warrants, or 33% of the issued and outstanding Warrants.

As of the date hereof, the directors and executive officers of Alaris, as a group, beneficially own, control or direct, directly or indirectly, 666,665 or 100% of the issued and outstanding Non-Voting Shares.

#### **CEASE TRADE ORDERS AND BANKRUPTCIES**

To Alaris' knowledge, no director or executive officer of Alaris:

- a) is, as at the date of this AIF, or was, within the 10 years before, a director, chief executive officer or chief financial officer of any company (including Alaris):
  - i. Subject to an order (including a cease trade order or an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation for a period of more than 30 consecutive days), that was issued while the director or executive officer was acting in the capacity as director, chief executive officer or chief financial officer; or
  - ii. Subject to an order (including a cease trade order or an order similar to a cease trade order or an order that denied the relevant company access to any exemption under securities legislation for a

period of more than 30 consecutive days) that was issued after the director or executive officer ceased to be a director, chief executive officer or chief financial officer and which resulted from an event that occurred while that person was acting in the capacity as director, chief executive officer or chief financial officer;

- b) is, as at the date of this AIF, or has been, within the 10 years before, a director or executive officer of any company (including Alaris) that while that person was acting in that capacity or within a year of the person ceasing to act in that capacity, became bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency or was subject to or instituted any proceedings, arrangement or compromise with creditors or had a receiver, receiver manager or trustee appointed to hold its assets; or
- c) has, within the 10 years before the date of this AIF, become bankrupt, made a proposal under any legislation relating to bankruptcy or insolvency, or become subject to or instituted any proceedings, arrangement or compromise with creditors, or had a receiver, receiver manager or trustee appointed to hold the assets of the director or executive officer;

except for the following:

Mr. Riddell has been a director and officer of Paramount Resources Ltd. ("**Paramount**") in various capacities since 1978. Paramount is, and has been since 1992, the general partner of T.T.Y. Paramount Partnership No. 5 ("**TTY**"), a limited partnership which is an unlisted reporting issuer in certain provinces of Canada. TTY was established in 1980 to conduct oil and gas exploration and development, but has not carried on operations since 1984 and currently has nominal assets. A cease trade order against TTY was issued by the Autorité des Marchés Financiers in 1999 for failing to file the June 30, 1998 interim financial statements in Quebec. The Autorité des Marchés Financiers revoked the cease trade order against TTY on April 9, 2008. TTY had received exemptions from filing interim financial statements in Alberta in 1985 and in Manitoba and Ontario in 1986 due to its inactive status but did not receive a similar exemption from the Autorité des Marchés Financiers at that time. The limited partners of TTY voted in favour of dissolving TTY on May 20, 2008 at a Special Meeting of the limited partners.

Until March 2, 2010, Mssrs. Budreski and Patterson were directors of EarthFirst Canada Inc. ("**EarthFirst**"). EarthFirst was engaged in development of wind power and related generation facilities. EarthFirst obtained creditor protection under the *Companies' Creditors Arrangement Act* (Canada) (the "**CCAA**") on November 4, 2008. The CCAA process has now been completed and Earth First Canada has been amalgamated with another company and no longer exists as a separate entity.

Mr. Lee is currently a director of Darian Resources Ltd. ("**Darian**"). Darian is engaged in the business of oil and gas exploration and development. Darian obtained creditor protection under the CCAA pursuant to an order granted on February 12, 2010 by the Court of Queen's Bench of Alberta. The CCAA filing followed a review of Darian's strategic alternatives by Darian's board of directors.

## **PENALTIES OR SANCTIONS**

To Alaris' knowledge, none of our directors, executive officers or Shareholders holding a sufficient number of securities of the Corporation to affect materially the control of Alaris has been subject to: (a) any penalties or sanctions imposed by a court relating to securities legislation or by a securities regulatory authority or has entered into a settlement agreement with a securities regulatory authority; or (b) any other penalties or sanctions imposed by a court or regulatory body that would likely be considered important to a reasonable investor in making an investment decision.

## **CONFLICTS OF INTEREST**

There are potential conflicts of interest to which the directors and officers of Alaris will be subject in connection with the operations of Alaris. In addition, certain of the directors and officers of Alaris are involved in managerial and/or director positions with other companies whose operations may, from time to time, be in direct competition with those of Alaris or with entities which may, from time to time, provide financing to, or make equity investments in, competitors of Alaris. See "*Directors and Officers of Alaris*". Conflicts, if any, will be subject to the procedures

and remedies available under the CBCA. The CBCA provides that in the event that a director has an interest in a contract or proposed contract or agreement, the director shall disclose his interest in such contract or agreement and shall refrain from voting on any matter in respect of such contract or agreement unless otherwise provided by the CBCA. For further information on particular conflicts of interest involving directors and officers of Alaris, see *"Interest of Management and Others in Material Transactions"*

## **LEGAL PROCEEDINGS AND REGULATORY ACTIONS**

To the knowledge of Alaris, there are no legal proceedings material to Alaris to which Alaris is a party, or was a party to in 2009, or that any of its assets is or was the subject matter of in 2009, nor are there any such proceedings known to the Corporation to be contemplated.

During the year ended December 31, 2009 there were: (i) no penalties or sanctions imposed against Alaris or by a court relating to securities legislation or by a securities regulatory authority; (ii) no other penalties or sanctions imposed by a court or regulatory body against Alaris that would likely be considered important to a reasonable investor in making an investment decision, and (iii) no settlement agreements entered into by Alaris before a court relating to a securities legislation or with a securities regulatory authority.

## **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Except as disclosed below, none of our directors, executive officers or Shareholders who beneficially own, or controls or direct, directly or indirectly, more than 10% of any class or series of our outstanding Common Shares (and no associate or affiliate of any of these persons or companies) have any material interest, direct or indirect, in any transaction within the three most recently completed financial years that has materially affected or is reasonably expected to materially affect Alaris.

On July 3, 2008 Alaris and AIG Fund entered into a reorganization agreement pursuant to which the Corporation agreed to acquire all the outstanding securities of Alaris Partnership and AIC and to acquire certain indebtedness of Alaris Partnership. Pursuant to the Reorganization Agreement and associated agreements, on July 31, 2008, Alaris acquired (i) 233,333 Common Shares of AIC from Mr. Reid in exchange for 233,332 Non-Voting Shares at a deemed price of \$12.00 per Non-Voting Share, (ii) 166,667 common shares of AIC from Mr. Driscoll in exchange for 166,667 Non-Voting Shares at a deemed price of \$12.00 per Non-Voting Share, (iii) 266,667 common shares of AIC from Mr. King in exchange for 266,666 Non-Voting Shares at a deemed price of \$12.00 per Non-Voting Share, and (iv) \$83,500,000 of Alaris Partnership's outstanding \$90,000,000 subordinated debt from Treherne, a company 100% owned by Mr. Riddell, for \$51,500,000 in cash and the issuance of 2,666,667 Common Shares. See *"General Development of the Business"*. A total of \$6,500,000 of the Corporation's subordinated debt remains outstanding to Treherne.

Pursuant to the Offering, Clayton H. Riddell, a director and shareholder of the Corporation subscribed for, either individually or through entities controlled by him, 760,000 units (with each unit consisting of one Share and one-half of one Warrant) at a price of \$6.00 per unit, representing approximately 33% of the units issued pursuant to the Offering.

## **AUDITORS, TRANSFER AGENT AND REGISTRAR**

Our auditors are KPMG LLP.

Our registrar and transfer agent for our Common Shares is Computershare Trust Company of Canada, at its principal offices in Calgary, Alberta, and Toronto, Ontario.

## **MATERIAL CONTRACTS**

Except for contracts entered into in the ordinary course of business, Alaris has not entered into any material contract in the most recently completed financial year or in the current financial year. In addition, Alaris does not have any material contracts entered into before the most recently completed financial year which are still in effect, other than:

1. the First Assignment Agreement;
2. the Second Assignment Agreement.
3. the HSBC/BMO Senior Credit Facility;
4. the LifeMark Partnership Agreement; and
5. the LMS Partnership Agreement

Copies of the material contracts may be inspected at our head office or at the offices of Burnet, Duckworth & Palmer LLP at 1400, 350 - 7<sup>th</sup> Avenue S.W., Calgary, Alberta, T2P 3N9, during normal business hours.

The material contracts may also be viewed by accessing disclosure documents of the Corporation available through the internet on SEDAR at [www.sedar.com](http://www.sedar.com).

## **INTEREST OF EXPERTS**

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation described or included in a filing, or referred to in a filing, made under National Instrument 51-102 by the Corporation during, or related to, the Corporation's most recently completed financial year other than KPMG LLP, our auditors. KPMG LLP, Chartered Accountants, are independent within the meaning of the Rules of Professional Conduct of the Institute of Chartered Accountants of Alberta. No director, officer or employee of KPMG LLP, is or is expected to be elected, appointed or employed as a director, officer or employee of the Corporation or of any associate or affiliate of the Corporation.

## **AUDIT COMMITTEE INFORMATION**

The Audit Committee is a committee of the Board established for the purpose of overseeing the accounting and financial reporting process of the company and annual external audits of the consolidated financial statements.

### **THE AUDIT COMMITTEE'S MANDATE**

The Audit Committee has set out its responsibilities and composition requirements in fulfilling its oversight in relation to the company's internal accounting standards and practises, financial information, accounting systems and procedures, which procedures are contained in the Corporation's Audit Committee Mandate, the full text of which is set out in Schedule "A" attached hereto.

### **COMPOSITION OF THE AUDIT COMMITTEE**

The Audit Committee currently consists of Mary Ritchie, F.C.A. (Chair), Jack C. Lee, B.Comm, B.A., and Gary Patterson, F.C.A.

### **RELEVANT EDUCATION AND EXPERIENCE**

The following chart sets out the assessment of each Audit Committee member's independence, financial literacy and relevant educational background and experience supporting such financial literacy.

Name and Municipality of Residence	Independent	Financially Literate	Relevant Education and Experience
<b>Mary Ritchie</b> Edmonton, Alberta	Y	Y	Ms. Ritchie is President and Chief Executive Officer of Richford Holdings Ltd., an accounting and investment advisory services company. Ms. Ritchie is a member of the Canadian Institute of Chartered Accountants, and a Fellow of the Institute of Chartered Accountants of Alberta. Ms. Ritchie is the Chairman of the Audit Committees of RBC Funds Inc. and RBC Advisor Global Fund Inc. She is also a member of the Board of Directors of Industrial Alliance Ltd.
<b>Jack C. Lee</b> Calgary, Alberta	Y	Y	Mr. Lee is President of Facet Resources Ltd., a private investment company. In May 2008 he became Chairman of Sprott Inc., prior thereto he was Vice Chairman of Penn West Energy Trust, Chairman of Canetic Resources Trust and President and Chief Executive Officer of Acclaim Energy Trust. Mr. Lee is also on the board of Ithaca Energy Inc. and three private oil and gas companies, Gryphon Petroleum Corp., Darian Resources Ltd. and CanEra Resources Inc. Mr. Lee has a Bachelor of Arts and a Bachelor of Commerce. Mr. Lee is also a member of the Institute of Corporate Directors.
<b>Gary Patterson</b> Kelowna, British Columbia	Y	Y	Since June 2003 Mr. Patterson is the President and Chief Executive Officer of GAP Financial Ltd., a British Columbia based company which provides financial and business advisory services to corporations. Prior to June 2003, Mr. Patterson was Executive Vice-President and Chief Financial Officer of Inwest Investments Ltd., and its wholly-owned real estate company, Wesbild Holdings Ltd. Mr. Patterson was also Executive Vice President and Chief Financial Officer of Future Shop Ltd., a retailer of consumer electronics products previously listed on the TSX, with broad responsibility for finance, accounting, real estate and public relations. In addition, he was previously on the board of trustees of Art In Motion Income Fund, SUMMIT Real Estate Investment Trust and EarthFirst Canada Inc.. Mr. Patterson also sits on the board of Seaclyff Construction Corp., a diversified construction company providing general contracting and electrical contracting services to public and private sector clients. Mr. Patterson received a Bachelor of Commerce from Mount Allison University, New Brunswick. Mr. Patterson is also a Fellow of the Institute of Chartered Accountants of British Columbia.

## PRE-APPROVAL POLICIES AND PROCEDURES

The Audit Committee is responsible for reviewing and pre-approving all non-audit services to be provided to the Corporation by its external auditors.

## EXTERNAL AUDITOR SERVICE FEES

Nature of Services	Fees Paid to Auditor Relating to Fiscal Year Ended December 31, 2008	Fees Paid to Auditor Relating to Fiscal Year Ended December 31, 2009
<b>Audit Fees</b>	\$122,500	\$132,000 <sup>(1)</sup>
<b>Audit Related Fees</b>	\$0	\$25,975
<b>Tax Fees</b>	\$37,250	\$7,750
<b>All Other Fees</b>	\$0	\$0
<b>Total</b>	\$159,750	\$165,725

(1) \$49,000 of these fees consist of fees paid in relation to the Offering.

## **ADDITIONAL INFORMATION**

Additional information relating to Alaris can be found on SEDAR at [www.sedar.com](http://www.sedar.com). Additional information, including information about the remuneration and indebtedness of our directors and officers, the principal holders of our securities and our securities authorized for issuance under equity compensation plans, will be contained in our information circular for the annual meeting of shareholders expected to be held on or around June 2, 2010. Additional financial information about Alaris is provided for in our financial statements and management's discussion and analysis for the year ended December 31, 2009.

## **SCHEDULE "A"**

### **ALARIS ROYALTY CORP.**

### **AUDIT COMMITTEE MANDATE**

The Audit Committee (**Committee**) of board of directors (**Board**) of Alaris Royalty Corp. (**Company**) has the oversight responsibility and specific duties described below and shall comply with the requirements of applicable laws.

#### **COMPOSITION**

The Committee will be comprised of at least three directors. All Committee members will be independent under applicable law.

All Committee members will be "financially literate" under the definition set out in applicable law, which, for greater certainty, is currently defined in National Instrument 52-110 *Audit Committees* as "... the ability to read and understand a set of financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of the issues that can reasonably be expected to be raised by the Company's financial statements".

Committee members will be appointed and removed as required by the Board. The Committee Chair will be appointed by the Board.

#### **RESPONSIBILITIES**

The Committee's primary purpose is to assist the Board in fulfilling its oversight responsibilities with respect to (i) the integrity of annual and quarterly financial statements to be provided to the Company's shareholders and regulatory bodies; (ii) compliance with accounting and finance based legal and regulatory requirements; (iii) the external auditor's qualifications, independence and compensation, and communicating with the external auditor; (iv) the system of internal accounting and financial reporting controls that management has established; (v) performance of the external audit process and of the external auditor; (vi) financial policies and strategies including capital structure; (vii) financial risk management practices; and, (viii) transactions or circumstances which could materially affect the financial profile of the Company.

#### **SPECIFIC DUTIES**

The Committee will:

##### **Audit Leadership**

1. Have a clear understanding with the external auditor that it must maintain an open and transparent relationship with the Committee, and that the ultimate accountability of the external auditor is to the Committee, as representatives of the shareholders of the Company.
2. Provide an avenue for communication between each of the external auditor, financial and senior management and the Board, and the Committee has the authority to communicate directly with the external auditors.

##### **Auditor Qualifications and Selection**

1. Subject to required shareholder approval of the appointment of auditors of the Company, be solely responsible for recommending to the Board: (i) the external auditor of the Company for the purpose of preparing or issuing an auditor's report or performing other audit review or attest services for the Company; and, (ii) the compensation of the external auditor of the Company. The Committee is directly responsible for overseeing the work of the external auditor engaged for the purpose of preparing or issuing an auditor's report or performing other audit review or attest services for the Company, including the resolution of disagreements between management and the external auditor regarding financial reporting. In all

circumstances the external auditor reports directly to the Committee. The Committee is entitled to adequate funding to compensate the external auditor for completing an audit and audit report or performing other audit, review or attest services.

2. Evaluate the external auditor's qualifications, performance and independence. Take all reasonable steps to ensure that the external auditor does not provide non-audit services that would disqualify it as independent under applicable law.
3. Review the experience and qualifications of the senior members of the external audit team and the quality control procedures of the external auditor. Ensure that the lead audit partner of the external auditor is replaced periodically, according to applicable law. Take all reasonable steps to ensure continuing independence of the external audit firm. Present the Committee's conclusions on auditor independence to the Board.
4. Review and approve policies for the Company's hiring of senior employees and former employees of the external auditor who were engaged on the Company's account to the Board for consideration.

### Process

Pre-approve all audit services (which may include consent and comfort letters in connection with securities offerings). Pre-approve and disclose, as required, the retention of the external auditor for non-audit services to be provided to the Company or any of its subsidiaries permitted under applicable law. In the discretion of the Committee, annually delegate to one or more of its members the authority to grant pre-approvals provided that those pre-approvals are presented in writing to the Committee at the next regularly scheduled meeting.

Meet with the external auditor prior to the audit to review the scope and general extent of the external auditor's annual audit including (i) the planning and staffing of the audit; and, (ii) an explanation from the external auditor of the factors considered in determining the audit scope, including the major risk factors.

Require the external auditor to provide a timely report setting out (i) all critical accounting policies, significant accounting judgments and practices to be used; (ii) all alternative treatments of financial information within Generally Accepted Accounting Principles (**GAAP**) that have been discussed with management, ramifications of the use of such alternative disclosures and treatments and the treatment preferred by the external auditor; and, (iii) other material written communications between the external auditor and management.

Take all reasonable steps to ensure that officers and directors or persons acting under their direction are aware that they are prohibited from coercing, manipulating, misleading or fraudulently influencing the external auditor when the person knew or should have known that the action could result in rendering the financial statements materially misleading.

Upon completion of the annual audit, review the following with management and the external auditor:

- a) The annual financial statements, including related notes, the management's Discussion and Analysis of Financial Condition and Results of Operations (**MD&A**) of the Company and the financial statement and internal control certifications by the Chief Executive Officer and Chief Financial Officer of the Company (**Certifications**), for filing with applicable securities regulators and provision to the shareholders of the Company, as required, as well as all annual earnings press releases before their public disclosure.
- b) The significant estimates and judgements and reporting principles, practices and procedures applied by the Company in preparing its financial statements, including any newly adopted accounting policies and the reasons for their adoption.
- c) The results of the audit of the financial statements and whether any limitations were placed on the scope or nature of the audit procedures.

- d) Significant changes to the audit plan, if any, and any serious disputes or difficulties with management encountered during the audit, including any problems or disagreements with management which, if not satisfactorily resolved, would have caused the external auditor to issue a non-standard report on the financial statements of the Company.
- e) The cooperation received by the external auditor during its audit, including access to all requested records, data and information.
- f) Any other matters not described above that are required to be communicated by the independent auditor to the Committee.

### **Risk Management**

1. Discuss guidelines and policies with respect to risk assessment and risk management, including the processes management uses to assess and manage the Company's risk. Discuss major financial risk exposures and steps management has taken to monitor and control such exposures. Receive reports from management with respect to risk assessment, risk management and major financial risk exposures.

### **Financial Statements and Disclosure**

1. At least annually, as part of the review of the annual financial statements, receive an oral report from the Company's counsel concerning legal and regulatory matters that may have a material impact on the financial statements.
2. Based on discussions with management and the external auditor, in the Committee's discretion, recommend to the Board whether the annual financial statements and MD&A of the Company, together with any annual earnings press releases and Certifications should be approved for filing with applicable securities regulators and provided to the Company's shareholders, as required, prior to their disclosure.
3. Review the general types and presentation format of information that it is appropriate for the Company to disclose in earnings news releases or other earnings guidance provided to analysts and rating agencies.
4. Review with management and the external auditor the quarterly financial statements, MD&A, Certifications and quarterly earnings releases prior to their release and recommend to the Board for consideration the quarterly results, financial statements, MD&A, Certifications and news releases prior to filing them with or furnishing them to the applicable securities regulators and prior to any public announcement of financial results for the periods covered, including a written report of the results of the external auditor's reviews of the quarterly financial statements, significant adjustments, new accounting policies, any disagreements between the external auditor and management and the impact on the financial statements of significant events, transactions or changes in accounting principles or estimates that potentially affect the quality of financial reporting.

### **Internal Control Supervision**

1. As required by applicable law, review with management and the external auditor the Company's internal controls over financial reporting, any significant deficiencies or material weaknesses in their design or operation, any proposed major changes to them and any fraud involving management or other employees who have a significant role in the Company's internal controls over financial reporting.
2. Review with management, the Chief Financial Officer and the external auditor the methods used to establish and monitor the Company's policies with respect to unethical or illegal activities by employees that may have a material impact on the financial statements.
3. Meet with management and the external auditor to discuss any relevant significant recommendations that the external auditor may have, particularly those characterized as "material" or "serious" (typically, such

recommendations will be presented by the external auditor in the form of a Letter of Comments and Recommendations to the Committee). Review responses of management to the Letter of Comments and Recommendations from the external auditor and receive follow-up reports on action taken concerning the recommendations.

4. Review with management and the external auditor any correspondence with regulators or government agencies and any employee complaints or published reports which raise material issues regarding the Company's financial statements or accounting policies of the Company (as required and at a minimum, on a quarterly basis).
5. Review with management and the external auditor any off-balance sheet financing mechanisms, transactions or obligations of the Company.
6. Review with management and the external auditor any material related party transactions.
7. Review with management and the external auditor any legal claims involving the Company.
8. Review with the external auditor the quality of the Company's accounting personnel. Review with management the responsiveness of the external auditor to the needs of the Company.

#### **Disclosure Controls and Procedures**

1. Periodically assess and be satisfied with the adequacy of procedures in place for the review of public disclosure of financial information extracted or derived from the applicable financial statements (other than the annual and quarterly required filings) for the Company.

#### **Financial Leadership**

2. Review the Company's financial strategy considering current and future business needs, capital markets and the Company's credit rating (if any).
3. Review the Company's capital structure including debt and equity components, current and expected financial leverage, and interest rate and foreign currency exposures and, in the Committee's discretion, make recommendations to the Board for consideration.
4. Review the financing of the Company's Annual Operating Plan and, in the Committee's discretion, make recommendations to the Board for consideration.
5. Periodically review and, in the Committee's discretion, recommend changes to the Company's dividend policy to the Board for consideration.
6. In conjunction with the Compensation and Governance Committee, annually review the appointment of the Chief Financial Officer (CFO) and other senior financial individuals within the Company.

#### **Financial Management**

1. On a quarterly basis, review proposed monthly dividends to be declared for each quarter and, in the Committee's discretion, make recommendations to the Board for consideration.
2. Regularly review current and expected future compliance with covenants under all financing agreements.
3. Annually review the instruments the Company and its subsidiaries are permitted to use for short-term investments of excess cash and, in the Committee's discretion, make recommendations to the Board for consideration.

4. Annually review a report of all expenses submitted by the Chair of the Board and by the Chief Executive Officer of the Company.

### **Financial Risk Management**

1. Regularly review the financial risks arising from the Company's exposure to changes in interest rates, foreign currency exchange rates and credit. Review the management of these risks including any proposed hedging of the exposures. Review a summary report of the hedging activities including a summary of the hedge-related instruments.
2. Annually review the insurance program including coverage for property damage, business interruption, liabilities, and directors and officers.
3. Review any other significant financial exposures of the Company to the risk of a material financial loss including tax audits or other activities.
4. Establish procedures (through approval of the relevant sections of the Code of Business Conduct) for (i) the receipt, retention, and treatment of complaints received by the Company regarding accounting, internal accounting and financial reporting controls, or auditing matters; and, (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
5. Regularly review all submissions under the Company's Whistleblower Policy.

### **Transactions**

1. Review any proposed issues of securities of the Company or proposed issues of securities of the subsidiaries of the Company to parties not affiliated with the Company and, in the Committee's discretion, make recommendations to the Board for consideration. When applicable, review the related securities filings and make recommendations to the Board for consideration.
2. Review any proposed material issues of debt including public and private debt, credit facilities with banks and others, and other credit arrangements such as capital and operating leases and, in the Committee's discretion, make recommendations to the Board for consideration. When applicable, review the related securities filings and make recommendations to the Board for consideration.
3. Receive reports on significant, non-material issues of or changes to debt including public and private debt, credit facilities with banks and others, and other credit arrangements such as capital and operating leases.
4. Review any proposed repurchases of shares, public and private debt or other securities and, in the Committee's discretion, make recommendations to the Board for consideration.

### **Committee Reporting**

1. Following each meeting of the Committee, report to the Board on the activities, findings and any recommendations of the Committee.
2. Report regularly to the Board and review with the Board any issues that arise with respect to the quality or integrity of the financial statements of the Company, compliance with applicable law and the performance and independence of the external auditor of the Company.
3. Annually review and approve the information regarding the Committee required to be disclosed in the Company's Annual Information Form and Committee's report for inclusion in the annual Proxy Circular.
4. Prepare any reports required to be prepared by the Committee under applicable law.

### **Committee Meetings**

1. Meet at least four times annually and as many additional times as needed to carry out its duties effectively. The Committee may, on occasion and in appropriate circumstances, hold meetings by telephone conference call.
2. Meet in separate, non-management, closed sessions with the external auditor at each regularly scheduled meeting.
3. Meet in separate, non-management, in camera sessions at each regularly scheduled meeting.
4. Meet in separate, non-management, closed sessions with any other internal personnel or outside advisors, as needed or appropriate.

### **Committee Governance**

1. Once or more annually, as the Compensation and Governance Committee (**CG Committee**) decides, receive for consideration that Committee's evaluation of this Mandate and any recommended changes. Review and assess the CG Committee's recommended changes and make recommendations to the Board for consideration.

### **Advisors/Resources**

1. Have the sole authority to retain, oversee, compensate and terminate independent advisors to assist the Committee in its activities.
2. Receive adequate funding from the Company for independent advisors and ordinary administrative expenses that are needed or appropriate for the Committee to carry out its duties.

### **Other**

1. With the CG Committee, the Board and the Board Chair, respond to potential conflict of interest situations, as required.
2. Carry out any other appropriate duties and responsibilities assigned by the Board.
3. To honour the spirit and intent of applicable law as it evolves, authority to make minor technical amendments to this Mandate is delegated to the Secretary, who will report any amendments to the Compensation & Governance Committee at its next meeting.

**Approved:**        March 11, 2009