ALARIS
ROYALTY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ending March 31, 2014

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited financial statements for the three months ended March 31, 2014 and March 31, 2013, for Alaris Royalty Corp., ("**Alaris**" or the "**Corporation**"). The Corporation's unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and are recorded in Canadian dollars. These financial statements do not contain all disclosure required by IFRS for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2103, which have been prepared in accordance with IFRS. Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

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

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

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses and gains to EBITDA. Management deems non-recurring charges to be unusual and/or infrequent charges that the Corporation incurs outside of its common day-to-day operations. For the three months ended March 31, 2014, the unrealized foreign exhange gains and losses gain are considered by management to be non-recurring charges. Adding back these non-recurring charges allows management to assess EBITDA from ongoing operations.

Earnings Coverage Ratio refers to EBITDA divided by the sum of debt servicing (interest and principal), maintenance capital expenditures and distributions to Alaris.

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

OVERVIEW

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

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared to Three Months Ended March 31, 2013

	3 months ending March 31		
	2014	**2013**	**% Change**
Revenue per share	$0.55	$0.44	+25.0%
Normalized EBITDA per share	$0.49	$0.38	+28.9%
Net cash from operating activities per share	$0.45	$0.40	+12.5%
Dividends per share	$0.36	$0.315	+14.3%
Weighted average basic shares outstanding (000's)	28,713	24,715	

Revenues from Partners for the three months ended March 31, 2014 totaled $15.8 million compared to $10.96 million in the three months ended March 31, 2013. The increase of 44.1% compared to the prior period is a result of new Partners added in 2013 as well as year over year performance metric adjustments from each of the Partners as described below. See "Private Company Partner Update" for more information on the individual Partners' performance.

Partner Revenue (000's)	**3 months ending Mar 31, 2014**	**3 months ending Mar 31, 2013**	**% Change**	**Comment**
Sequel	$2,731	$-	N/A	Contribution closed July 1, 2013
KMH	2,067	2,067	-	Next reset is Jan 1/15
Killick	1,678	1,442	+16.4%	+4% gross revenue July 1/13, further contribution in Dec 2012, Dec 2013
SCR	1,600	-	N/A	Contribution closed in May 2013
Solowave	1,206	1,166	+3.5%	+3.5% same customer sales increase Jan 1/14 due to strength in US and Int'l market
SMi	1,200	-	N/A	Contribution closed in November 2013
Quetico	1,096	1,170	-6.3%	Est -15% decrease on gross profit Jan 1/14 partially offset by currency difference
LifeMark	989	1,755	-43.6%	+4% fixed increase July 1/13, reduced financial interest by another $30 million in Q2/13
Agility Health	895	500	+79.0%	Contribution closed in Dec 2012, further contributions late 2013
Labstat	856	1,545	-44.6%	Restructured to smaller fixed portion plus cash sweep effective Jan 1/14
LMS	843	585	+44.1%	+13% increase in gross profit Jan 1/14 plus $3MM prom note conversion
End of the Roll	326	335	-2.6%	-2.6% same store sales decrease May 1/13
SHS	-	201	-100%	Receivership in December 2013
Subtotal	**$15,489**	**$10,766**	**+43.9%**	
Interest	312	197	+58.4%	Interest on promissory notes
Total	**$15,801**	**10,963**	**+44.1%**	

Interest expense of $1,165,137 in the period was 95.8% higher compared to $595,061 in the prior year period due to a larger amount of debt outstanding in 2014. In the first quarter of 2014, the Corporation started with $44.5million of debt then drew $6 million for a follow on contribution to Labstat.

Salaries and benefits were $337,277 in the quarter, up 16.0% compared to the prior year period due to modest increases in base salaries effective August 1st and two new management positions added in October 2013.

In the three months ending March 31, 2014 the Corporation recorded non-cash stock based compensation expenses totaling $723,062 (2013 – $729,698) which included: $436,026 to amortize the fair value of the Corporation's restricted share unit plan (the "RSU Plan") (2013 –$342,012) and $287,036 to recognize the fair value of outstanding stock options (2013 – $387,686). Also in the quarter, the Corporation made cash payments based on current dividend rates of $85,162 to employees and directors in lieu of dividends under the RSU Plan (2013 - $64,631).

Corporate and office expenses were $497,104 compared to $384,217 in the prior year and include office rent, travel and corporate administrative expenses. The 29.4% increase was due to an increase in TSX fees as well as the hiring of a US public relations firm to help create deal flow in the US.

Legal and accounting expenses were $309,474 for the three months ended March 31, 2014 compared to $153,575 for the prior year period. The significant increase relates to additional legal fees relating to the CRA reassessment process as well as additional tax compliance work due to an increased number of states the Corporation is required to file returns in.

Depreciation and amortization was comparable to the prior year period.

The Corporation recorded earnings of $11.9 million, EBITDA of $16.5 million and Normalized EBITDA of $13.9 million for the three months ended March 31, 2014 compared to earnings of $6.7 million, EBITDA of $9.7 million and Normalized EBITDA of $9.4 million for the three months ended March 31, 2013. The increase in earnings and EBITDA can be attributed to the addition of new Partners in 2013: SCR (May 2013), Sequel (July 2013) and SMi (Nov 2013); and follow on contributions to Agility and Killick toward the end of 2013.

Reconciliation of Net Income to EBITDA (thousands)	**3 months ending March 31, 2014**	**3 months ending March 31,2013**
Earnings	$11,947	$6,689
Adjustments to Net Income:		
Amortization and depreciation	27	26
Finance costs	1,165	595
Income tax expense	3,333	2,398
EBITDA	**$16,472**	**$9,708**
Normalizing Adjustments		
Unrealized foreign exchange loss/(gain)	(2,538)	(304)
Normalized EBITDA	**$13,934**	**$9,404**

For the three months ending March 31, 2014, dividends were declared of $0.12 per month for a total of $0.36 per share and $10,339,982 in aggregate. In the prior year period, dividends were declared totalling $0.305 per share and $7,898,919 in aggregate.

A portion of the $8.4 million of cash held at March 31, 2014 was used to satisfy the dividend declared in March 2014 (payable April 15, 2014).

The Corporation has a $75.1 million, interest-only senior debt facility with a two-member Canadian bank syndicate, which was drawn to $50.5 million at March 31, 2014. Interest is paid monthly at the lenders' prime rate plus three percent per annum (6.0% at March 31, 2014). During the current quarter, the Corporation drew $6.0 million for a further contribution to Labstat.

The Corporation has recorded a $3.5 million deferred tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections.

PRIVATE COMPANY PARTNER UPDATE

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

The following is a summary of each of the Partners recent financial results. Included in this summary will be a comment on the Partner's earnings coverage ratio that the Corporation discloses annually in the Annual Information Form. This Earnings Coverage Ratio is defined as EBITDA divided by debt servicing (interest and principal), maintenance capital expenditures and distributions to Alaris. Because this information from time to time is based on unaudited information provided by Partner company management, each Partner will be identified as part of a range. The ranges are: less than 1.0x, 1.0x to 1.5x, 1.5x to 2.0x and greater than 2.0x. A result greater than 1 is considered appropriate and the higher the number is, the better the rating.

LifeMark

The Corporation's original contribution into LifeMark was in 2004. When LifeMark was sold to Centric Health Corporation ("Centric""), a Canadian public company, in 2011, the Corporation reduced its financial interest by approximately 50%. In 2013, Centric repaid $30 million of the $65.5 million repurchase right that was negotiated as part of the sale. Based on the terms of the amended Partnership agreement dated June 9, 2011, the LifeMark distribution will not be subject to potential decreases and instead is fixed at a 4% increase each period ending June 30 and the distributions are now supported by Centric, who report to Alaris quarterly.

LifeMark provides integrated health, medical and rehabilitation services through over 120 facilities across Canada. While physiotherapy and rehabilitation services have historically seen few significant year over year swings, changes in reimbursement rates from government agencies can produce some volatility. As the distribution reset is fixed at an increase of 4%, Alaris will not be affected by annual swings in LifeMark's revenue.

Based on audited financial statements for the year ended December 31, 2013, Centric's revenues were approximately 4% ahead and EBITDA was 21% behind prior year results. Centric currently has the option to repurchase the remaining partnership units owned by the Corporation at a fixed price of $35.5 million. If the units are not repurchased by June 13, 2014, the $35.5 million will increase by 4%. Distributions for Lifemark are currently scheduled at $4.04 million for 2014.

The fair value of the LifeMark units remains unchanged at $35.5 million as Centric has the option to repurchase the remaining units for that amount and has expressed its intention to do so in the next couple of years. The Earnings Coverage Ratio for LifeMark is in the 1.0x – 1.5x range and has improved (increased) in 2013.

LMS

The Corporation's original contribution into LMS was in 2007. On December 31, 2013, the Corporation converted, at its option, $3 million of the $6 million in promissory notes outstanding into additional preferred partnership units. The yield on those units will be 16% plus the percentage change in gross profit for the year ended December 31, 2013. Total gross profit is the top-line performance metric on which the annual distributions to the Corporation are reset. A portion of the annual distributions from LMS reset on January 1, 2014 and the remainder on April 1, 2014 based on the December 2013 results.

LMS is a western Canadian based concrete reinforcing steel fabricator and installer. Over the course of 2013 LMS continued to see improvement in volumes and work on hand across each of its residential, commercial and infrastructure business segments. Margins remain under pressure from a competitive landscape but have stabilized in recent years and show continued improvement. The Company benefited from increased volume and consistent margins over the past few years, and based on work on hand, LMS management expects continued improvement into its 2014 fiscal year.

Based on audited financial statements, for the year ended December 31, 2013, total gross profit dollars were approximately 13% ahead of the prior year. With that 13% increase in the performance metric, distributions are currently expected to be $3.5 million for 2014. Based on unaudited financial statements prepared by LMS management for the two months ended February 28, 2014, revenue, gross profit and EBITDA are consistent with the prior year period.

With the conversion of the $3 million promissory note into additional preferred units in LMS on December 31, 2013, the fair value is $32.5 million and is unchanged in the current period. The Earnings Coverage Ratio for LMS is in the 1.0x – 1.5x range and improved significantly in 2013 and into 2014 since being slightly below 1.0x in 2012.

End of the Roll

The Corporation's original contribution in End of the Roll was in 2005. Same store sales results are the top-line performance metric on which the annual payments to the Corporation are reset.

End of the Roll is a Canada-wide retail flooring franchise system and completed its eighth fiscal year as an Alaris partner on April 30, 2013. The renovation industry was relatively stable year over year and End of the Roll's results reflect that.

Based on unaudited financial statements for the ten months ended February 28, 2014, revenues and EBITDA are approximately 10% ahead of prior year results. Annualized distributions are currently scheduled at $1.14 million for 2014 but will reset on May 1, 2014 based on the April 30, 2014 same store sales results.

The End of the Roll transaction is recorded as an intangible asset and is reviewed regularly for impairment. No impairment exists at this time. The Earnings Coverage Ratio for End of the Roll continues to be greater than 2.0x consistent with the prior year.

KMH

Since 2010, the Corporation has acquired $54.8 million of preferred partnership units in KMH Limited Partnership in five separate contributions. Same clinic sales is the top-line performance metric on which the annual distributions to the Corporation are reset and tracks the organic growth of clinics open for at least two years. Due to a number of transactions with the Corporation, the next reset date is set for January 1, 2015.

KMH is a private healthcare company operating twelve diagnostic clinics (nuclear medicine, cardiology and MRI) in Ontario and nine clinics in the United States. KMH's 2013 results benefited from full year contributions from a number of acquisitions completed in 2012 which the Corporation helped fund.

Based on unaudited internal financial statements provided by KMH's management for the two months ended February 28, 2014, total revenues and EBITDA are both ahead of the prior year. Distributions on the KMH preferred units are currently scheduled at $8.27 million for 2014.

The fair value of the KMH units remains unchanged at $55.4 million. The Earnings Coverage Ratio for KMH is in the 1.0x – 1.5x range and has improved slightly since the last quarter.

Solowave

In December 2010, the Corporation purchased preferred partnership units in Solowave Design Limited Partnership for an aggregate acquisition cost of $32.5 million. The annual distributions increase and decrease based on same customer net sales and both growth and declines are capped at 6% per year.

Solowave is a Canadian-based privately held designer and manufacturer of residential, ready-to-assemble wooden play centers as well as ready to assemble wooden residential structures. Solowave sells its products under the brands "Big Backyard", "Cedar Summit Play Systems" and "Yardistry". The improved results of the business for the period are in part due to the recent recovery in the American housing market as well as modest growth in Canadian and international business.

Based on unaudited information provided by management, for the five months ended March 31, 2014, revenues and EBITDA are over 10% ahead of the prior year results. Based on audited information, Solowave's same customer net sales increased by 3.5% for the fiscal 2013 period. After consideration of this 3.5% increase on the annual distribution effective January 1, 2014, Solowave distributions are scheduled to be $4.82 million for 2014.

The fair value of the Solowave units remains at $32.6 million at March 31, 2014. The Earnings Coverage Ratio for Solowave is greater than 2.0x and has improved since the last quarter.

Killick

In December 2013, the Corporation announced the purchase of $5 million in additional preferred partnership units of Killick Aerospace Limited Partnership. This contribution was in addition to the initial acquisition of units for $27.25 million in July 2011 and a $9.0 million acquisition of units in 2012, for an aggregate cost of $41.25 million. The annual growth and decline in Killick's distributions to Alaris is capped at 4% based on the annual change in gross revenues.

Killick is a Canadian-owned, Dallas-based privately held participant in the global aircraft maintenance, repair and overhaul industry. Killick has experienced significant growth as they continue to find new opportunities, particularly in the aftermarket parts sales business.

Killick's year end is December 31st and based on audited financial statements for fiscal 2013, revenues and EBITDA were both over 50% ahead of the prior year. Based on unaudited internal financial statements prepared by Killick management for the two months ended February 28, 2014, revenue and EBITDA are behind prior year results but Killick's operations can fluctuate from month to month particularly in the parts sales business. The distributions are currently scheduled at $6.69 million and will increase again (except on the portion relating to the $5 million recently contributed) on July 1, 2014 by the maximum 4% (same as last year) based on audited results for the year ended December 2013.

The fair value of the Killick units remains at $44.8 million at March 31, 2014. The Earnings Coverage Ratio for Killick is greater than 2.0x but has declined slightly in 2014.

Quetico

In November 2011, the Corporation announced the purchase of preferred LLC units in Quetico, LLC for an aggregate acquisition cost of $26.9 million USD. Annual growth in Quetico's distributions to Alaris is capped at 10% and is based on the change in gross revenues. Maximum decline in the annual distribution is capped at 20%.

Quetico is a provider of wholesale textiles, inventory management, third party logistic and fulfillment services predominantly for the textile business segments of big box retailers. Coming off a record setting year in 2012 in which the Corporation received the maximum 10% upwards adjustment to the annual distribution Quetico fell short of repeating these results. The business remains highly profitable and 2013 results were still ahead of those achieved in 2011.

Quetico's year end is December 31st and based on unaudited internal financial statements for the fiscal year, revenues and EBITDA are behind the prior year results. As a result distributions from Quetico will decrease by approximately 15% effective January 1, 2014 and are scheduled at approximately $4.2 million in Canadian dollars for 2014. The Corporation has purchased monthly forward contracts locking in the foreign exchange rate for all of 2014 and 70% of 2015 and the new rates on the forward contracts offset approximately half of the decrease in annual distributions. Based on unaudited internal financial statements provided by Quetico management for the two months ended February 28, 2014, revenue, gross profit and EBITDA are consistent with the prior year.

The fair value of the Quetico units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Quetico units remains unchanged. The Corporation was expecting a modest decline in performance levels during 2013, and believes the business remains in excellent shape. The earnings coverage ratio for Quetico is in the 1.5x to 2.0x range and has declined slightly from December 31, 2013.

Labstat

In June 2012, the Corporation announced the purchase of partnership units in Labstat International, ULC for an aggregate acquisition cost of $41.2 million. Labstat is a global leader in regulation-driven analysis of tobacco smoke and products.

Annual growth and decline in Labstat's distributions to Alaris are capped at 6% and is based on the change in gross revenues.

As previously announced, on February 28, 2014, Alaris contributed $6 million in preferred equity alongside $1 million from Labstat to deleverage the business, bringing Alaris' total preferred equity investment to $47.2 million. Alaris also agreed to temporarily restructure the form of its distributions, reducing the fixed portion to 7.25% on all preferred equity contributed with a variable portion in the form of a cash sweep up to the maximum that would have been paid under the original agreement, being $6.67 million in 2014, provided certain financial covenants and performance targets are met.

Fixed distributions are currently scheduled at $3.36 million for 2014. A variable portion in the form of a cash sweep is also scheduled bringing the maximum possible distribution up to $6.67 million, which equals the original $6.18 million adjusted for the 6% decline from the reset effective January 1, 2014, plus the distribution on the $6 million contributed in February 2014.

Labstat has experienced a strong start in 2014. Based on unaudited financial statements prepared by management for the three months ended March 31, 2013, revenue and EBITDA are both significantly ahead of the prior year, and are ahead of the internally prepared budget as contracts Labstat procured in recent months commenced in 2014. Given these results are only for three months, the Corporation has not accrued any amount in the first quarter for the amount of cash sweep expected in 2014. However, since the reduced leverage targets required by Labstat's lenders to allow the sweep have already been hit, the Corporation expects to make that accrual in the second quarter, once a few more month's results have been received.

Given the changes made to the distribution going forward, the reduced fixed amount and the variable cash sweep, the Earnings Coverage Ratio, on a pro forma basis, is in the 1.5x to 2.0x range for the twelve months ended February 28, 2014.

Aside from the increase of $6 million to reflect the recent subscription for preferred shares, the fair value of the Labstat units remain unchanged at March 31, 2014.

Agility

In December 2012, the Corporation announced the purchase of preferred LLC units in Agility Health, LLC for an aggregate acquisition cost of $12.5 million USD. The Corporation acquired additional preferred LLC units in the last quarter of 2013 for an aggregate acquisition cost of $7.6 million USD. Agility's year end is December 31st, annual growth and decline in Agility's distributions to Alaris is capped at 6% and is based on the change in same clinic sales.

Agility Health is a private health care company specializing in providing physical and occupational therapy and speech pathology services to health care providers and employers through 27 hospital clinics, 47 long term care facilities and 46 outpatient clinics across the United States.

Based on unaudited statements provided by management for the year ending December 31, 2013, revenue and EBITDA were both modestly ahead of the prior year and same clinic sales were up approximately 1.5%. Based on unaudited statements provided by management for the two months ending February 28, 2014, revenue and EBITDA were slightly behind prior year results due to an unusually high number of weather related cancellations in January and February. Distributions are currently scheduled at $3.41 million in Canadian dollars for 2014. The Corporation has purchased monthly forward contracts locking in the foreign exchange rate for all of 2014 and 70% of 2015, which will result in an increase in CAD distributions.

The fair value of the Agility units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Agility units remains unchanged. The Earnings Coverage Ratio for Agility is in the 1.0x to 1.5x range.

SCR

In May 2013, the Corporation announced the purchase of partnership units in SCR Mining and Tunneling, LP for an aggregate acquisition cost of $40 million. Due to the multiyear business cycles of SCR's operations, the Corporation established that the first reset would not be until January 1, 2016 and will be based on the two year average revenue results for 2014 and 2015 compared to the two year average for 2013 and 2014. Annual growth or decline in SCR's distributions to Alaris is capped at 6% and are based on net revenue.

SCR provides mining, surface and underground construction, electrical and mechanical services to the Canadian mining industry.

Based on unaudited financial statements provided by management for the two months ended February 28, 2014, SCR's revenue and EBITDA are modestly ahead of the prior year results. SCR's year end is December 31st and the distributions to the Corporation will not change until the completion of SCR's 2015 fiscal year. Of note, SCR has no debt and annual distributions are currently scheduled at $6.4 million until December 31, 2015.

The SCR units have been owned for less than one year and the business has performed as expected thus the fair value of the SCR units remains unchanged at $40.5 million. The Earnings Coverage Ratio for SCR is between 1.5x and 2.0x.and has declined since last quarter.

Sequel

In July 2013, the Corporation announced the purchase of preferred LLC units in Sequel Youth and Family Services, LLC for an aggregate acquisition cost of $66 million USD. Annual growth or decline in Sequel's distributions to Alaris is capped at 5% and is based on same program sales.

Sequel is a privately owned company founded in 1999 which develops and operates programs for people with behavioral, emotional, or physical challenges.

Based on unaudited financial statements provided by management for the eight months ended February 28, 2014, Sequel's revenue and EBITDA are modestly ahead of the prior year. The first reset is July 1, 2014 and will be based on the same program sales results for the year ended June 30, 2014. Distributions are currently scheduled at $9.9 million USD dollars for 2014.

The Sequel units have only been owned for nine months and the business has performed as expected thus the fair value is unchanged except for the fact that the fair value of the Sequel units will fluctuate each quarter with foreign exchange rates. The Earnings Coverage Ratio for Sequel is between 1.0x and 1.5x.

SMi

In November 2013, the Corporation announced the purchase of partnership units in SM Group International, LP for an aggregate acquisition cost of $30 million. Annual growth or decline in SMi's distributions to Alaris is capped at 6% and is based on gross revenue. SMi is a privately owned company founded in 1972 which specializes in the delivery of integrated scientific, engineering and IT solutions dedicated to the areas of buildings, energy, energy efficiency, environment, industry, infrastructure, natural resources, power, security, telecommunications and materials testing.

Based on unaudited financial statements provided by management for the two months ended February 28, 2014, SMi's revenue and EBITDA were consistent with the prior year. The first reset is January 1, 2015 and will be based on 2014 revenue results. Distributions are currently scheduled at $4.8 million for 2014.

The SMi units have only been owned for five months and the business has performed as expected thus the fair value of the SMi units remains unchanged at $30.7 million. The Earnings Coverage Ratio for SMi is between 1.5x and 2.0x.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has a $75.1 million senior credit facility provided by two Canadian chartered banks. The senior facility was renewed on December 31, 2013 at an interest rate of Canadian prime interest rate plus 3%. The senior credit facility is an interest-only, 364-day revolving loan that is expected to be renewed December 31, 2014. The facility carries a three-year term out option in the event the loan is not renewed. Therefore at March 31, 2014, three months of potential principal payments are shown as a current liability as the first potential principal repayment would be in January 2015 and then only if the facility is not renewed in December 2014. At March 31, 2014, the Corporation met all of its covenants as required by the senior credit facility. Those covenants include a maximum debt to EBITDA of 1.7:1 (0.9:1 at March 31, 2014); minimum tangible net worth of $401.7 million ($433.8 million at March 31, 2014); and a minimum fixed charge coverage ratio of 1:1 (1.12:1 at March 31, 2014).

The Corporation had 28,722,171 voting common shares outstanding at March 31, 2014. The Corporation had working capital of approximately $1.1 million at March 31, 2014. Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

WORKING CAPITAL

The Company's working capital (defined as current assets less current liabilities) at March 31, 2014 and December 31, 2013 is set forth in the table below.

	March 31, 2014	December 31, 2013
Cash	8,382,942	8,998,342
Trade and other receivables	2,003,891	955,831
Prepayments and deposits	1,318,283	125,543
Total Current Assets	**$11,705,116**	**$10,079,716**
Accounts payable & accrued liabilities	456,263	1,361,588
Dividends payable	3,446,661	3,443,243
Income taxes payable	2,532,657	1,031,701
Loans and borrowings	4,208,333	-
Total Current Liabilities	**$10,643,914**	**$5,836,532**
Net Amount	**$1,061,202**	**$4,243,184**

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

FINANCIAL INSTRUMENTS

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

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

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

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investments in Quetico, Agility and Sequel, the Corporation's US investments. The Corporation matched 100% of the 2014 scheduled distributions to the Canadian parent and approximately 70% to 80% of the expected 2015 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

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

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

March 31, 2014	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	456,263	456,263	0	0	0
Dividends payable	3,446,661	3,446,661	0	0	0
Income taxes payable	2,532,657	2,532,657	0	0	0
Foreign exchange contracts	993,431	993,431	0	0	0
Bank indebtedness	50,500,000	0	4,208,333	33,666,667	12,625,000
Total	**57,929,012**	**7,429,012**	**4,208,333**	**33,666,667**	**12,625,000**

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

There are no changes in internal controls over financial reporting. A complete discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited financial statements for the year ended December 31, 2013.

SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior credit facility described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its lease for office space. The Corporation agreed to a seven-year lease at a new location that commenced in 2009. Annual leasing costs are approximately $175,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	50,500,000	4,208,333	46,291,667	0	0
Office lease	469,056	175,896	293,160	0	0
Total Contractual Obligations	50,969,056	4,384,229	46,584,827	0	0

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

RECENT ACCOUNTING PRONOUNCEMENTS

Transition to International Financial Reporting Standards

The Corporation has adopted International Financial Reporting Standards ("IFRS") for its 2012 and 2013 fiscal years as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its 2011 Annual Management's Discussion and Analysis. The assessments and impacts discussion in the 2011 Annual Management's Discussion and Analysis remains largely unchanged.

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2014, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, with an effective date yet to be determined and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

Effective January 1, 2013, the Corporation adopted IFRS 10, 11, 12 and 13. These new standards do not affect the recognition or measurement of any items in the Corporation's Financial Statements. Disclosure requirements under IFRS 13 have been provided in Note 4. There have been no other changes to the Corporation's accounting policies from those disclosed in the consolidated Financial Statements of the Corporation for the years ended December 31, 2012 and 2011.

SUMMARY OF QUARTERLY RESULTS

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

	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12	Q2-12
Revenue	15,441	(758)	15,229	24,351	10,807	9,037	8,792	7,239
Earnings	11,947	(2,856)	8,388	17,597	6,689	4,931	4,868	4,160
Basic and Diluted	$0.42	($0.10)	$0.30	$0.70	$0.27	$0.22	$0.22	$0.21
Income (loss) per Share/Unit	$0.41	($0.09)	$0.29	$0.68	$0.26	$0.22	$0.21	$0.20

In Q2 2013, the Corporation recorded a $13.1 million gain on the reduction of the financial interest in LifeMark and in Q4 2013, the Corporation recorded a $15.5 million loss on SHS that affected both revenue and earnings in those periods.

OUTSTANDING SHARES

At March 31, 2014, the Corporation had authorized, issued and outstanding, 28,722,171 voting common shares.

In the three months ended March 31, 2014, the Corporation issued 26,250 shares that vested to Directors under the Restricted Share Unit ("RSU") Plan, and 2,227 shares as a result of the exercise of options.

At March 31, 2014, 238,207 RSUs and 1,796,248 stock options were outstanding under the Corporation's long-term incentive compensation plans. The weighted average exercise price of the outstanding options is $24.43.

CRA REASSESSMENT

The Corporation received a notice of reassessment (the "Notice of Reassessment") from the Canada Revenue Agency (the "CRA") CRA in February 2014 pursuant to which the CRA denied the deduction of the non-capital losses claimed by Alaris for the taxation year ended July 14, 2009 and was challenging Alaris' July 14, 2009 tax filing based on the acquisition of control rules of the Income Tax Act (Canada).

In management's view, the CRA's reassessment of Alaris, and certain of its recent reassessments of other Canadian companies, is part of a broader initiative on the CRA's part to challenge companies with respect to the use of tax assets. Alaris has received legal (tax) advice that Alaris should be entitled to deduct the non-capital losses, and as such, Alaris is of the opinion that its tax filings to date are correct and will withstand any reassessment by the CRA. Alaris intends to vigorously defend its tax filing position.

Alaris intends to file a notice of objection to the Notice of Reassessment and has 90 days from the date the Notice of Reassessment is mailed to do so. Alaris is required to pay a deposit of 50% of the assessed tax liability (plus interest) at that time. Alaris' total federal and provincial assessed tax liability (as described in the Notice of Reassessment) is estimated to be $3.6 million and Alaris will be required to pay a deposit of approximately $1.8 million on that amount, with the remaining amount not payable until the dispute with the CRA is resolved and only if the result is not in Alaris' favor. During the three months ending March 31, 2014 the Corporation paid the Federal portion of the deposit, $1.26 million, and it is included in prepayments and deposits on the Corporation's balance sheet. The Provincial portion is expected to be paid shortly bringing the total to $1.8 million. Although the Corporation does not expect to receive any additional reassessments in respect of its taxation years subsequent to July 14, 2009 until matters under the Notice of Reassessment have been resolved, the Corporation may also be reassessed with respect to the deduction of its non-capital losses in all of its tax filings subsequent to July 14, 2009.

Alaris anticipates that legal proceedings through the CRA and tax courts would take considerable time to resolve. The Corporation firmly believes it will be successful in defending its position and therefore, any deposits paid to the CRA would be refunded, plus interest

OUTLOOK

Alaris' agreements with its Partners provide for estimated revenue to the Corporation of approximately $63.2 million in 2014. For the second quarter of 2014, those same agreements with its Partners provides for estimated revenue to the Corporation of approximately $15.5 million. Annual general and administrative expenses are currently estimated at $5.3 million annually and include all public company costs. The senior debt facility was drawn to $50.5 million at March 31, 2014. The annual interest rate on that debt was approximately 6.0% at March 31, 2014 and remains at that level today. Cash requirements after net income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment.

Alaris' unique capital structure continues to fill a niche in the private capital markets. Therefore, Alaris continues to attract interest in its capital from private businesses across North America and is confident it will contribute capital to new, and existing Partners in 2014. As a conservative measure, Alaris does not use any estimates for future revenue earned from the contribution of capital into new or existing Partners in its guidance or budgeting process

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

RISKS AND UNCERTAINTY

A complete discussion of the risks faces by the Corporation can be found under the MD&A that accompany the audited financial statements for the year ended December 31, 2013.

FORWARD-LOOKING STATEMENTS

This MD&A contains forward looking statements. Statements other than statements of historical fact contained in this MD&A may be forward looking statements, including, without limitation, management's expectations, intentions and beliefs concerning the growth, results of operations, performance and business prospects and opportunities of the Corporation and the Partners, the general economy, the amount and timing of the declaration and payment of dividends by the Corporation, the future financial position or results of the Corporation, business strategy, proposed acquisitions, growth opportunities, budgets, litigation, projected costs and plans and objectives of or involving the Corporation or the Partners. In particular, this MD&A contains forward looking statements regarding the anticipated financial and operating performance of the Partners in 2014, including, without limitation, the earnings coverage ratio for the Partners; the revenues to be received by Alaris in 2014 (aggregate and on a per share basis); the Corporation's general and administrative expenses and cash requirements in 2014; the CRA proceedings (including the expected timing and financial impact thereof); and Alaris' ability to attract new private businesses to invest in. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. To the extent that any forward-looking statements herein constitute a financial outlook, including without limitation, estimated revenues (aggregate and on a per share basis) and expenses, , they were approved by management as of the date hereof and have been included to assist readers in understanding management's current expectations regarding Alaris' financial performance and are subject to the same risks and assumptions disclosed herein. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward looking information contained in this MD&A. Statements containing forward looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The forward looking information contained herein are based on certain assumptions, including assumptions regarding the performance of the Canadian and U.S. economies over the next 24 months and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners; the continuing ability of the business of the Partners to pay the distributions; the performance of the Private Company Partners; that interest rates will not rise in a material way over the next 12 to 24 months; that the businesses of the Partners will not change in a material way; more private companies will require access to alternative sources of capital; and that Alaris will have the ability to raise required equity and/or debt financing on acceptable terms. Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris; unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; liquidity of Common Shares; changes in the financial markets; risks associated with the Partners and their respective businesses; a change in the ability of the Partners to continue to pay Distributions to Alaris; a material change in the operations of a Partner or the industries in which they operate; a failure to obtain required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; litigation risk associated with the CRA's reassessment and the Corporation's challenge thereof; and material adjustments to the unaudited internal financial reports provided to Alaris by the Partners. The information contained in this MD&A, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

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

ADDITIONAL INFORMATION

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