



MANAGEMENT DISCUSSION AND ANALYSIS

For the three and six months ending June 30, 2014

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited financial statements for the three and six months ended June 30, 2014 and June 30, 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, 2013, 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" in this MD&A 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 or gains to be unusual and/or infrequent charges that the Corporation incurs or realizes outside of its common day-to-day operations. For the three months ended June 30, 2014, the unrealized foreign exchange gains and losses and the 2013 gain on the reduction of the Corporation's interest in LifeMark are considered by management to be non-recurring items. Adjusting for these non-recurring charges allows management to assess EBITDA from ongoing operations.

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

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 June 30, 2014 Compared to Three Months Ended June 30, 2013

	3 months ending June 30		
	2014	2013	% Change
Revenue per share	\$0.55	\$0.45	+22.2%
Normalized EBITDA per share	\$0.41	\$0.33	+24.2%
Net cash from operating activities per share	\$0.45	\$0.40	+12.5%
Dividends per share	\$0.365	\$0.325	+12.3%
Weighted average basic shares outstanding (000’s)	28,902	24,963	

Revenues from Partners for the three months ended June 30, 2014 totaled \$16.2 million compared to \$11.6 million in the three months ended June 30, 2013. The increase of 39.6% 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 June 30, 2014	3 months ending June 30, 2013	% Change	Comment
Sequel	\$2,698	\$-	N/A	Contribution closed July 1, 2013
KMH	1,889	2,067	-8.6%	Same clinic sales decline Jan 1, 2014 of 6.1%
Killick	1,678	1,442	+16.4%	+4% gross revenue July 1/13, further contribution in Dec 2012, Dec 2013
SCR	1,600	674	+137.5%	Contribution closed in May 2013, only partial distributions in Q2 2013
Labstat	1,356	1,545	-12.3	Restructured to smaller fixed portion plus cash sweep effective Jan 1/14, accrued \$500K for first six months of sweep in 2014
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
LifeMark	1,002	1,237	-18.9%	+4% fixed increase in June 14, reduced financial interest by \$30 million in Q2/13
Quetico	972	1,196	-18.8%	Decrease on gross profit Jan 1/14
Agility Health	884	512	+72.7%	Same clinic sales +1.5% Jan 1/14, further contributions late 2013
LMS	831	624	+33.1	+13% increase in gross profit Jan 1/14 plus \$3MM prom note conversion
Kimco	335	-	N/A	Contribution closed June 2014
End of the Roll	270	277	-2.5%	-2.6% same store sales decrease May 1/13
SHS	-	625	-100%	Receivership in December 2013
Subtotal	\$15,920	\$11,364	+40.1%	
Interest	315	268	+17.5%	Interest on promissory notes
Total	\$16,235	\$11,632	+39.6%	

Interest expense of \$876,075 in the period was 149.2% higher compared to \$351,577 in the prior year period due to a larger amount of debt outstanding in 2014. In the second quarter of 2014, the Corporation started with \$50.5 million of debt then drew \$31.7 million for the contribution to Kimco before repaying the entire balance in June 2014.

Salaries and benefits were \$2,353,965 in the quarter, up 32.6% (\$578,551) compared to the prior year period. Part of the increase is due to the 2014 bonus accrual based on the increase in distributable cash per share resulting in a bonus pool of \$2 million compared to \$1.5 million in 2013. The Corporation also added two new management positions in October 2013.

In the three months ending June 30, 2014 the Corporation recorded non-cash stock based compensation expenses totaling \$1,110,080 (2013 – \$748,061) which included: \$442,666 to amortize the fair value of the Corporation’s restricted share unit plan (the “RSU Plan”) (2013 –\$356,066) and \$667,414 to recognize the fair value of outstanding stock options (2013 – \$391,995). Also in the quarter, the Corporation made cash payments based on current dividend rates of \$85,811 to employees and directors in lieu of dividends under the RSU Plan (2013 - \$64,631).

Corporate and office expenses were \$429,606 compared to \$403,769 in the prior year and include office rent, travel and corporate administrative expenses. The 6.4% increase was due mainly 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 \$453,204 for the three months ended June 30, 2014 compared to \$430,137 for the prior year period. The 5.4% 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 in which the Corporation is required to file returns in.

The Corporation records foreign exchange gains or losses in each period on the change in the mark to market value of the forward contracts in place to hedge distributions coming from US Partners as well as the impact of the change in US exchange rates from period to period on the US dollar loan to a subsidiary of the Corporation that funds a portion of the contributions to US Partners. The unrealized foreign exchange loss in the current period of \$3.6 million is due to a \$0.035 swing in the US rate from March 31, 2014 to June 30, 2014.

Current and deferred income taxes for the three months ended June 30, 2014 show a recovery in the current period as during the preparation of the December 31, 2013 income tax returns, the Corporation determined that the deferred income tax provision had been performed incorrectly for the years ended December 31, 2012 and December 31, 2013. The impact of the error is that the deferred income tax asset was understated and the deferred income tax expense was overstated in the years ended December 31, 2012 and December 31, 2013 by \$984,400 and \$1,333,000, respectively. These errors have been corrected by recording an out of period adjustment in the three and six months periods ended June 30, 2014.

The Corporation recorded earnings of \$8.7 million, EBITDA of \$9.0 million and Normalized EBITDA of \$11.9 million for the three months ended June 30, 2014 compared to earnings of \$17.6 million, EBITDA of \$21.8 million and Normalized EBITDA of \$8.3 million for the three months ended June 30, 2013. The decrease in earnings and EBITDA can be attributed to the gain on the reduction of the Corporation’s interest in LifeMark in 2013, The increase in Normalized EBITDA can be attributed to the addition of new Partners in the last twelve months: SCR (May 2013), Sequel (July 2013), SMi (Nov 2013) and Kimco (June 2014); and follow on contributions to Agility and Killick toward the end of 2013.

Reconciliation of Net Income to EBITDA (thousands)	3 months ending June 30, 2014	3 months ending June 30,2013
Earnings	\$8,745	\$17,597
Adjustments to Net Income:		
Amortization and depreciation	28	26
Finance costs	876	352
Income tax expense	(645)	3,810
	\$9,004	\$21,785
Normalizing Adjustments		
Gain on reduction of interest in LifeMark	-	(13,052)
Unrealized foreign exchange loss/(gain) net of loss/(gain) on foreign exchange contracts	2,884	(458)
Normalized EBITDA	\$11,888	\$8,275

For the three months ending June 30, 2014, dividends were declared of \$0.12 per month for April and May and for \$0.125 in June for a total of \$0.365 per share and \$10,892,849 in aggregate. In the prior year period, dividends were declared totalling \$0.325 per share and \$8,192,949 in aggregate.

A portion of the \$11.6 million of cash held at June 30, 2014 was used to satisfy the dividend declared in June 2014 (payable July 15, 2014).

The Corporation has an \$85.1 million, interest-only senior debt facility with a two-member Canadian bank syndicate, which was undrawn at June 30, 2014. Interest is paid monthly at the lenders' prime rate plus three percent per annum (6.0% at June 30, 2014). During the current quarter, the Corporation drew \$31.7 million for the Kimco contribution then repaid the entire outstanding balance of \$82.2 million with proceeds from an equity offering.

The Corporation has recorded a \$3.9 million deferred tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

	6 months ending June 30		
	2014	2013	% Change
Revenue per share	\$1.11	\$0.90	+23.3%
Normalized EBITDA per share	\$0.90	\$0.70	+28.6%
Net cash from operating activities per share	\$0.80	\$0.74	+8.1%
Dividends per share	\$0.725	\$0.640	+13.3%
Weighted average basic shares outstanding (000's)	28,808	25,209	

Revenues from Partners for the six months ended June 30, 2014 totaled \$32.0 million compared to \$22.6 million in the six months ended June 30, 2013. The increase of 41.7% compared to the prior period is a result of new Partners added in the past twelve months 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)	6 months ending June 30, 2014	6 months ending June 30, 2013	% Change	Comment
Sequel	\$5,429	\$-	N/A	Contribution closed July 1, 2013
KMH	3,956	4,134	-4.3%	Same clinic sales decline Jan 1, 2014 of 6.1%
Killick	3,357	2,884	+16.4%	+4% gross revenue July 1/13, further contribution in Dec 2012, Dec 2013
SCR	3,200	674	+375.1%	Contribution closed in May 2013
Solowave	2,412	2,331	+3.5%	+3.5% same customer sales increase Jan 1/14 due to strength in US and Int'l market
SMi	2,400	-	N/A	Contribution closed in November 2013
Quetico	2,067	2,374	-13.0%	Decrease on gross profit Jan 1/14 partially offset by currency difference
LifeMark	1,992	2,992	-33.4%	+4% fixed increase July 1/13, reduced financial interest by another \$30 million in Q2/13
Agility Health	1,779	1,016	+75.1%	Same clinic sales +1.5% Jan 1/14, further contributions late 2013
Labstat	2,211	3,090	-28.4%	Restructured to smaller fixed portion plus cash sweep effective Jan 1/14, accrued \$500K for first six months of sweep in 2014
LMS	1,674	1,209	+38.5%	13% increase in gross profit Jan 1/14 plus \$3MM prom note conversion
End of the Roll	596	612	-2.5%	-2.6% same store sales decrease May 1/13
Kimco	335	-	N/A	Contribution closed June 2014
SHS	-	826	-100%	Receivership in December 2013
Subtotal	\$31,407	\$22,142	+41.8%	
Interest	626	465	+34.6%	Interest on promissory notes
Total	\$32,033	\$22,607	+41.7%	

Interest expense of \$2,041,212 in the period was 115.6% higher compared to \$946,638 in the prior year period due to a larger amount of debt outstanding in 2014. In the first six months of 2014, the Corporation started with \$44.5 million of debt then drew \$6 million for a follow on contribution to Labstat and another \$31.7 million for an initial contribution to Kimco before repaying the entire balance in June 2014.

Salaries and benefits were \$2,691,243 in the period, up 30.2% (\$625,056) compared to the prior year period due to a \$500,000 increase in the accrual for the management bonus pool based on a distributable cash per share formula and two new management positions added in October 2013.

In the six months ending June 30, 2014 the Corporation recorded non-cash stock based compensation expenses totaling \$1,833,142 (2013 – \$1,477,760) which included: \$878,692 to amortize the fair value of the Corporation’s restricted share unit plan (the “RSU Plan”) (2013 –\$698,078) and \$954,450 to recognize the fair value of outstanding stock options (2013 – \$779,682). Also in the quarter, the Corporation made cash payments based on current dividend rates of \$174,595 to employees and directors in lieu of dividends under the RSU Plan (2013 - \$129,263).

Corporate and office expenses were \$923,079 compared to \$789,017 in the prior year and include office rent, travel and corporate administrative expenses. The 17.0% increase was due to an increase in TSX fees as well as the hiring of a US public relations firm to assist with US business development.

Legal and accounting expenses were \$762,663 for the six months ended June 30, 2014 compared to \$576,834 for the prior year period. The 32.2% 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.

Deferred income taxes for the six months ended June 30, 2014 are significantly less than the prior year period due to the previously mentioned error in prior year income tax provisions.

The Corporation recorded earnings of \$20.7 million, EBITDA of \$25.5 million and Normalized EBITDA of \$25.8 million for the six months ended June 30, 2014 compared to earnings of \$24.3 million, EBITDA of \$31.5 million and Normalized EBITDA of \$19.2 million for the six months ended June 30, 2013. The decrease in earnings and EBITDA can be attributed to the LifeMark gain in 2013 while the increase in Normalized EBITDA is due 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)	6 months ending June 30, 2014	6 months ending June 30, 2013
Earnings	\$20,704	\$24,342
Adjustments to Net Income:		
Amortization and depreciation	54	53
Finance costs	2,041	947
Income tax expense	2,678	6,171
EBITDA	\$25,477	\$31,513
Normalizing Adjustments		
Gain on reduction of interest in LifeMark	-	(13,052)
Unrealized foreign exchange loss/(gain) net of loss/(gain) on foreign exchange contracts	345	762
Normalized EBITDA	\$25,822	\$19,223

For the six months ending June 30, 2014, dividends were declared of \$0.725 per share and \$21,232,830 in aggregate. In the prior year period, dividends were declared totalling \$0.64 per share and \$16,091,867 in aggregate.

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 except in limited situations of uncured events of default. Instead, the Corporation has certain restrictive covenants in place designed to protect the ongoing payment of the 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 Health Limited Partnership ('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 unaudited financial statements for the three months ended March 31, 2014, Centric's revenues were approximately 3% behind and EBITDA was 14% behind prior year results. Centric currently has the option to repurchase the remaining partnership units owned by the Corporation at a fixed price of \$36.92 million. If the units are not repurchased by June 13, 2015, the \$36.92 million will increase by 4%. Annual distributions for Lifemark increased by 4% and are scheduled at \$4.12 million for the next twelve months.

The fair value of the LifeMark units increased from \$35.5 million to \$36.92 million at June 30, 2014 as a result of the fixed 4% increase in the repurchase right 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 1.5x – 2.0x range and has improved (increased) over last quarter (1.0x – 1.5x range at March 31, 2014).

LMS

The Corporation's original contribution into LMS Limited Partnership ('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. \$1 million of the remaining \$3 million in promissory notes were repaid in June 2014 and the remainder is expected to be repaid in 2014. 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.

For the three and six months ending June 30, 2014

LMS is a western Canadian based concrete reinforcing steel fabricator and installer. LMS continues 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 throughout the 2014 fiscal year.

Based on unaudited financial statements prepared by LMS management for the five months ended May 31, 2014, gross profit and EBITDA are over 20% ahead of the prior year period.

The fair value of the LMS units is \$32.5 million and is unchanged in the current period. The Earnings Coverage Ratio for LMS is in the 1.5x – 2.0x and has improved significantly (1.0x – 1.5x range at March 31, 2014).

End of the Roll

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

End of the Roll is a Canada-wide retail flooring franchise system and completed its ninth fiscal year as an Alaris partner on April 30, 2014. The renovation industry has been relatively stable year over year and End of the Roll's results reflect that.

Based on unaudited financial statements for the twelve months ended April 30, 2014, revenues and EBITDA were 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 once audited results are received by the Corporation.

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 period.

KMH

Since 2010, the Corporation has acquired \$54.8 million of preferred partnership units in KMH Limited Partnership ('KMH') 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.

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 saw revenue and EBITDA significantly ahead of the prior year as the company benefited from full year contributions from a number of acquisitions completed in 2012 which the Corporation helped fund. However, same clinic sales results were down 6.1% for fiscal 2013. Canadian same clinic sales were up but the US clinics were down due to some minor transition issues related to some of the acquired clinics.

Based on unaudited internal financial statements provided by KMH's management for the five months ended May 31, 2014, 2014, total revenues and EBITDA are consistent with the prior year. Distributions on the KMH preferred units are currently scheduled at \$7.96 million for 2014.

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

Solowave

In December 2010, the Corporation purchased preferred partnership units in Solowave Design Limited Partnership ('Solowave') 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 a modest 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 seven months ended May 31, 2014, revenues and EBITDA are over 10% ahead of the prior year results. Solowave distributions are scheduled to be \$4.82 million for 2014.

The fair value of the Solowave units remains at \$32.6 million at June 30, 2014. The Earnings Coverage Ratio for Solowave has improved since the last quarter and remains in the over 2.0x range.

Killick

Since July 2011, the Corporation has made three contributions to Killick Limited Partnership ('Killick') 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 five months ended May 31, 2014, revenue and EBITDA are behind prior year results but Killick's operations fluctuate from month to month particularly in the parts sales business. The distributions are currently scheduled at \$6.94 million for the next twelve months as they increased by the maximum 4% effective July 1, 2014 (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 June 30, 2014. The Earnings Coverage Ratio for Killick is greater than 2.0x, consistent with the last quarter.

Quetico

In November 2011, the Corporation announced the purchase of preferred LLC units in Quetico, LLC ('Quetico') 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, resulting in an 18% reduction in the annual distribution for 2013. 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 five months ended May 31, 2014, revenues and EBITDA are well behind the prior year results as a result of a drop off in one segment of their business. Distributions from Quetico are scheduled at approximately \$3.8 million in US 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 a portion of the decrease in annual distributions from 2013.

The fair value of the Quetico units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Quetico units is reviewed each quarter. While the business continues to be very profitable, and the earnings coverage ratio for Quetico remains in the 1.5x to 2.0x range as it was last quarter, the Corporation has reduced its growth expectations for the annual distributions and accordingly, has reduced the fair value of the units by US\$1.4 million.

Labstat

In June 2012, the Corporation announced the purchase of partnership units in Labstat International, ULC ('Labstat') 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 \$3.42 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 five months ended May 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. Since the reduced leverage targets required by Labstat's lenders to allow the sweep have already been hit, the Corporation has accrued \$500,000 for the estimated amount of the cash sweep for the first six months of 2014.

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 1.0x to 1.5x range for the twelve months ended May 31, 2014. The fair value of the Labstat units remain unchanged at June 30, 2014.

Agility

In December 2012, the Corporation announced the purchase of preferred LLC units in Agility Health, LLC ('Agility') 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 audited statements for the year ending December 31, 2013, same clinic sales were up 1.5%. Based on unaudited statements provided by management for the five months ending May 31, 2014, revenue was slightly behind prior year results due to an unusually high number of weather related cancellations early in the year, although EBITDA was slightly ahead of prior year results due to operational improvements. 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 dropped below 1.0x due to non-recurring expenses related to recent acquisitions but is in the 1.0x to 1.5x range after adjustments for current run rates for revenue and expenses. They were on covenant with senior lenders at May 31, 2014 and have access to more than one year's distributions to the Corporation on their balance sheet as of May 31, 2014.

SCR

In May 2013, the Corporation announced the purchase of partnership units in SCR Mining and Tunneling, LP ('SCR') 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 five months ended May 31, 2014, SCR's revenue and EBITDA are approximately 10% 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 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, consistent with last quarter.

Sequel

In July 2013, the Corporation announced the purchase of preferred LLC units in Sequel Youth and Family Services, LLC ('Sequel') 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 eleven months ended May 31, 2014, Sequel's revenue and EBITDA are modestly ahead of the prior year. The first reset will be effective July 1, 2014 and will be based on the same program sales results for the year ended June 30, 2014 once audited information is received by the Corporation. Distributions are currently scheduled at \$9.9 million USD dollars for 2014.

The Sequel units have been owned for one year 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 improved (increased) slightly over last quarter and remains between 1.0x and 1.5x.

SMi

In November 2013, the Corporation announced the purchase of partnership units in SM Group International, LP ('SMi') 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 three months ended March 31, 2014, SMi's revenue is consistent with the prior year and EBITDA is ahead of 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 seven 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, consistent with last quarter.

Kimco

In June 2014, the Corporation announced the purchase of preferred units in Kimco Holdings, LLC ('Kimco') for an aggregate acquisition cost of \$29.2 million USD. Annual growth or decline in Kimco's annualized distributions of \$4,672,000 USD to Alaris is capped at 6% and is based on gross revenue. Kimco has been providing commercial janitorial services since the 1970s. The majority of Kimco's services are generated under long-term contracts (generally 1-3 years) to more than 375 customers, which range in size from multi-location national customers to regional single-site customers.

The Kimco units were purchased in June 2014 so the fair value is what the Corporation just paid for the units, \$32.1 million CAD. The Earnings Coverage Ratio for Kimco, on a pro forma basis, is between 1.5x and 2.0x.

LIQUIDITY AND CAPITAL RESOURCES

The Corporation has an \$85.1 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 June 30, 2014, six months of potential principal payments would be 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. Since the facility is undrawn, there are no potential repayments at this time. At June 30, 2014, the Corporation met all of its covenants as required by the senior credit facility. Those covenants include a

For the three and six months ending June 30, 2014

maximum debt to contracted EBITDA of 1.7:1 (Nil at June 30, 2014); minimum tangible net worth of \$484.7 million (\$515.6 million at June 30, 2014); and a minimum fixed charge coverage ratio of 1:1 (1.20:1 at June 30, 2014).

The Corporation had 31,996,221 voting common shares outstanding at June 30, 2014. The Corporation had working capital of approximately \$14.3 million at June 30, 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 excluding foreign exchange contracts) at June 30, 2014 and December 31, 2013 is set forth in the table below.

	June 30, 2014	December 31, 2013
Cash	11,650,301	8,998,342
Trade and other receivables	2,632,453	955,831
Prepayments and deposits	1,318,283	125,543
Promissory notes receivable	7,550,000	8,500,000
Total Current Assets	\$23,151,037	\$18,579,716
Accounts payable & accrued liabilities	2,487,223	1,361,588
Dividends payable	3,999,528	3,443,243
Income taxes payable	2,340,693	1,031,701
Total Current Liabilities	\$8,827,444	\$5,836,532
Net Amount	\$14,323,593	\$12,743,184

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, Sequel and Kimco, 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:

June 30, 2014	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	2,487,223	2,487,223	-	-	-
Dividends payable	3,999,528	3,999,528	-	-	-
Income taxes payable	2,340,693	2,340,693	-	-	-
Foreign exchange contracts	317,896	317,896	-	-	-
Total	\$9,145,340	9,145,340	-	-	-

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
Office lease	425,082	87,948	337,134	-	-
Total Contractual Obligations	425,082	87,948	337,134	-	-

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

There have been no changes since the year ended December 31, 2013.

SUMMARY OF QUARTERLY RESULTS

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

	Q2-14	Q1-14	Q4-13	Q3-13	Q2-13	Q1-13	Q4-12	Q3-12
Revenue	16,910	15,441	(758)	15,229	24,351	10,807	9,037	8,792
Earnings	8,745	11,947	(2,856)	8,388	17,597	6,689	4,931	4,868
Basic and Diluted	\$0.30	\$0.42	(\$0.10)	\$0.30	\$0.70	\$0.27	\$0.22	\$0.22
Income (loss) per Share/Unit	\$0.30	\$0.41	(\$0.09)	\$0.29	\$0.68	\$0.26	\$0.22	\$0.21

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

OUTSTANDING SHARES

At June 30, 2014, the Corporation had authorized, issued and outstanding, 31,996,221 voting common shares.

In the three months ended June 30, 2014, the Corporation issued 3,274,050 shares by way of a short form prospectus. Proceeds from the offering reduced the Corporation's debt to nil.

At June 30, 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") 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 filed a notice of objection to the Notice of Reassessment during the three months ended June 30, 2014. Alaris' total federal and provincial assessed tax liability (as described in the Notice of Reassessment) is estimated to be \$3.6 million and Alaris was 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.

Subsequent to filing the notice of objection, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits for taxation years from 2006 through to 2012 (the "GAAR Proposal"). The GAAR Proposal does not impact Alaris' previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessment. Alaris remains confident in the appropriateness of its tax filing position and believes it will be successful in defending its filing position. Alaris intends to file its future tax returns on a basis consistent with its past filings.

Alaris anticipates that the legal proceedings through the CRA and tax courts will take considerable time to resolve.

OUTLOOK

Alaris' agreements with its Partners provide for estimated revenue to the Corporation of approximately \$66.0 million in 2014. For the third quarter of 2014, those same agreements with its Partners provides for estimated revenue to the Corporation of approximately \$17.3 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 undrawn at June 30, 2014. The annual interest rate on that debt was approximately 6.0% at June 30, 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 estimated deferred tax asset; 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.