



ANNUAL REPORT

Fiscal year ended December 31, 2018

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President's Message

2018 was an extremely successful year for Alaris. Double digit growth in revenue per share was a welcome return to the high growth rates that we have shown for the majority of our 15 year history. This growth came from two factors that were both all-time best performances for our company: For the first time in our history, each of our partner companies that had resets (effective January 1, 2018) had positive distribution resets which collectively resulted in the best overall organic growth rate in our history of 6%. Given that almost all of our resets are capped between 5% and 8%, having an average reset of 6% is an extraordinary achievement. The second factor that led to our growth was the best year of capital deployment in our history – deploying \$185 million over the course of the year.

While the private equity landscape in North America continues to be incredibly competitive – there is an estimated one trillion dollars of uninvested capital looking for deals – Alaris has continued to succeed in deploying capital into strong companies that do not want to lose control and want to keep the majority of their future upside. We feel fortunate to have carved out such a profitable niche in a huge but competitive industry.

Our portfolio continues to be stronger on a year over year basis while we have de-risked our portfolio over the past number of years. Six partners have no long-term debt and half of our partners have less than one times EBITDA in long-term debt on their balance sheets.

Fifteen years after the creation of Alaris, we are still improving and learning. There is no doubt that there will be more challenges in the future but our unique structure and our diversification across 16 partners has given us the ability to handle those challenges and continue to prosper. I don't believe that there will ever be a time that the private equity industry will not be hyper-competitive, but I feel very confident that our structure and more importantly our wonderful team will allow us to keep succeeding.



Steve King
CEO



About Alaris

Alaris is a Canadian company based in Calgary, Alberta. We provide preferred equity financing to private businesses across North America using an innovative structure which fills a niche in the private capital markets. This niche is: providing capital to successful businesses, which are in need of capital, but are unwilling to compromise the current state of their equity ownership and operational control of the business. Alaris Royalty Corp. trades on the Toronto Stock Exchange under the symbol "AD".

Objective & Strategy

Alaris is dedicated to creating long-term value for its shareholders.

We provide capital to well-run, profitable private companies in exchange for a monthly preferred equity distribution. These distributions to Alaris are set for 12 months and adjusted annually based on the "top-line" results of our private company partners ("Partners"). Alaris creates long-term partnerships with companies that have a proven track record of stability and profitability in varying economic conditions. Our Partners typically use our capital for growth, generational transfers, partial liquidity, management or private equity sponsor buyouts, or a combination of the aforementioned. For private companies with exceptional results, where giving up traditional common equity would be far too expensive, we believe that Alaris' preferred equity represents the lowest cost, least intrusive equity in the private capital market.

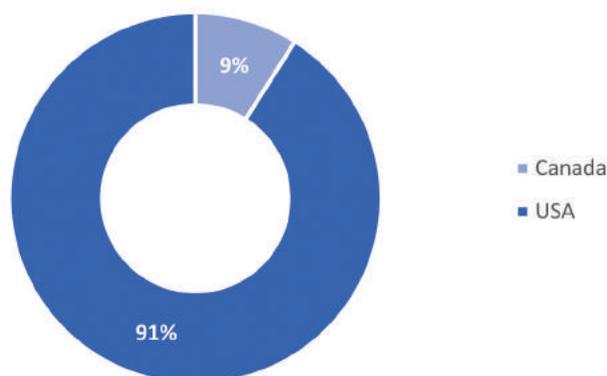
Our goal is to continue to diversify and increase our revenue streams by adding a select few new Partners each year in addition to providing follow-on capital to our existing Partners. Within our current revenue streams we aim to generate organic growth of 3-5% per year.

Investment Summary

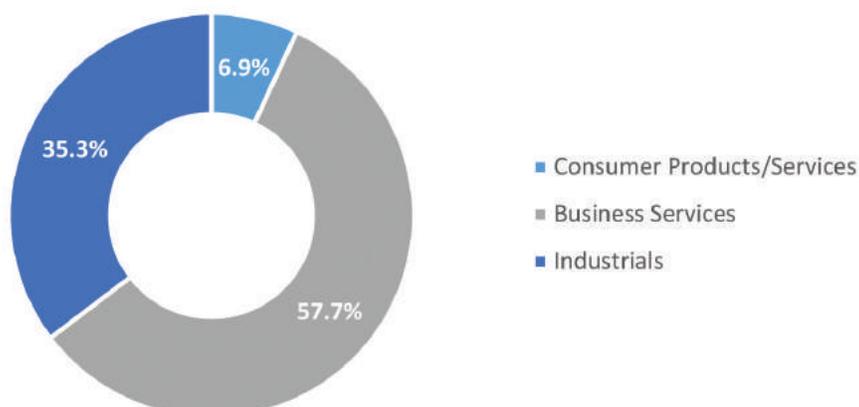
Alaris has approximately 91% of its fair value of investments in US based companies

Alaris has historically been weighted to healthcare. However, today, 58% of invested dollars are exposed to business services, 35% to industrials, and 7% to consumer products and services.

Investment by Country



Investment by Industry Segment %



Private Company Partner Summaries

(all dollar values in this table US\$millions)

PARTNER	Partner Since	Current Distribution	Amount Invested	Collar
Accscient	June 2017	\$5.57	\$38.00	+/-5%
Body Contour	Sept. 2018	\$6.44	\$46.00	+/-6%
ccComm	Jan. 2017	\$2.35	\$16.20	+/-6%
DNT	June 2015	\$11.42	\$67.80 ²	+/-6%
Federal Resources	June 2015	\$11.35	\$67.00	+/-6%
Fleet Advantage	June 2018	\$2.10	\$15.00	+/-6%
GWM Holdings	Nov. 2018	\$5.56	\$46.00	+/-8%
Heritage Restoration	Jan. 2018	\$2.36	\$15.00	+/-6%
Kimco	June 2014	\$0.00 ¹	\$34.20	+/-6%
PFGP	Nov. 2014	\$3.70	\$20.80 ³	+/-5%
Providence	Apr. 2016	\$4.49	\$30.00	+/-5%
Sandbox	Mar. 2016	\$6.18	\$40.00	+/-6%
SBI	Aug. 2017	\$11.93	\$85.00	+/-8%
Unify	Oct. 2016	\$1.92	\$12.00 ⁴	+/-5%
	Total US\$	\$75.37	\$528.00	

(all dollar values in this table CDN\$millions)

PARTNER	Partner Since	Current Distribution	Amount Invested	Collar
LMS	Apr. 2017	\$5.20	\$60.00	NA
SCR	May 2013	\$1.80 ⁵	\$40.00	+/-6%
	Total CDN\$	\$7.00	\$100.00	

NOTES:

1. Kimco is currently not paying a distribution to Alaris but is contractually obligated to pay up to US\$4.70.
2. Alaris originally invested US\$70 million in DNT, with US\$2.2 million having been redeemed to date.
3. Alaris originally invested US\$40 million in PFGP, with PFGP redeemed 41% of the outstanding units for US\$25 million leaving units worth \$20.8 million remaining in PFGP.
4. Alaris originally invested US\$18 million in Unify. Unify has redeemed US\$6
5. SCR is paying CAD\$150,000 per month currently (CAD\$1.8 million per year) but this amount may be higher if business performance allows, up to CAD\$6.02 million per year.

Board of Directors



Jack C. Lee
Chairman



Bob Bertram



John "Jay" F. Ripley



Gary Patterson



Mary Ritchie



E. Mitchell Shier



Stephen W. King



Financial Highlights

Full Year 2018 Highlights

- Revenue from Partners of \$100.1 million, a 12.4% increase
- Normalized EBITDA of \$80.8 million, a 5% increase
- Net cash from operating activities of \$78.3 million, a 16.4% increase
- Dividends paid of \$59.2 million, unchanged
- Full year payout ratio of 75.8%

Record capital deployment in 2018 investing \$185.0 million into four new partners and three follow on contributions into two existing partners.

New Partners

- US\$46.0 million into GWM Holdings, Inc.
- US\$46.0 million into Body Contour Centers, LLC
- US\$15.0 million into Heritage Restoration, LLC
- US\$15.0 million into Fleet Advantage, LLC

Follow-on Contributions to Existing Partners in 2018

- US\$3.0 million (May 2018) and US\$7.0 million (August 2018) into Accscient LLC
- US\$10.0 million (May 2018) into C&C Communications

Partner Redemptions in 2018

- Agility redemption generated an IRR of approximately 18% (25% in Canadian dollar) over our 5.2 year hold period
- Labstat redemption generated an IRR of approximately 19% over our 6.2 year hold period
- End of the Roll repurchased the Corporations intangible asset during the period, generating an IRR of approximately 22% over the 13 year hold period (the Corporations longest ever investment)

For more information, please view our [Corporate Presentation](https://www.alarisroyalty.com/investors/presentations-and-events) found on our website under Presentations & Events: <https://www.alarisroyalty.com/investors/presentations-and-events>.

2018 Per Share Highlights

\$2.74

Revenue from
Partners per share
(a 12.3% increase)

\$2.21

Normalized
EBITDA per share
(a 4.7% increase)

\$2.15

Net Cash from
operating activities
(a 16.2% increase)

\$1.622

Annual Dividend
(unchanged)

Management Discussion & Analysis

Alaris Royalty Corp.

For the year ended December 31, 2018

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited consolidated financial statements for the year ended December 31, 2018 for Alaris Royalty Corp. ("**Alaris**" or the "**Corporation**"). The Corporation's consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and are recorded in Canadian dollars. 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" in the annual MD&A. This MD&A also refers to certain non-IFRS measures, including EBITDA, Normalized EBITDA, Earnings Coverage Ratio, Contracted EBITDA, Run Rate Payout Ratio, Actual Payout Ratio, Tangible Net Worth and Per Share values as well as certain financial covenants defined below to assist in assessing the Corporation's financial performance. The terms EBITDA, Normalized EBITDA, Earnings Coverage Ratio, Contracted EBITDA, Run Rate Payout Ratio, Actual Payout Ratio, Tangible Net Worth, Fixed Charge Coverage Ratio and Per Share values (the "**Non-IFRS Measures**") as well as certain financial covenants as defined below are financial measures used in this MD&A that are not standard measures under IFRS. The Corporation's method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-IFRS measures may not be comparable to similar measures presented by other issuers. See "Results of Operations" for a reconciliation of EBITDA and Normalized EBITDA to earnings.

Run Rate Payout Ratio refers to Alaris' total dividend per share expected to be paid over the next twelve months divided by the estimated net cash from operating activities per share Alaris expects to generate over the same twelve month period (after giving effect to the impact of all information disclosed as of the date of this report).

Actual Payout Ratio refers to Alaris' total cash dividends paid during the period (annually or quarterly) divided by the actual net cash from operating activities Alaris generated for the period.

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

Normalized EBITDA refers to EBITDA excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses and gains to EBITDA. Management deems non-recurring items to be unusual and/or infrequent items that the Corporation incurs outside of its common day-to-day operations. For the three months and year ended December 31, 2018 and 2017, the gains on the redemption of the Agility and Labstat units and the sale of the End of the Roll intangible asset, increase in fair value of investments at fair value, previously unrecognized distributions received upon the Labstat redemption and the KMH and Group SM bad debt expense are considered by management to be non-recurring charges. Transaction diligence costs are recurring but are considered an investing activity. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from EBITDA on an ongoing basis. Adjusting for these non-recurring items allows management to assess cash flow from ongoing operations.

Earnings Coverage Ratio refers to the Normalized EBITDA of a Partner divided by such Partner's sum of debt servicing (interest and principal), unfunded maintenance capital expenditures and distributions to Alaris. Management believes the earnings coverage ratio is a useful metric in assessing our partners continued ability to make their contracted distributions.

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

Fixed Charge Coverage Ratio refers to EBITDA less unfunded maintenance capital expenditures divided by the sum of taxes, interest, debt repayments and dividends paid by Alaris. The Corporation's senior credit facility requires a minimum Fixed Charge Coverage Ratio as a financial covenant.

Contracted EBITDA refers to EBITDA for the previous twelve months excluding proceeds from any disposition of investments and any distributions accrued and not received but including all projected contracted payments from new and existing investments for the twelve-month period following the investment date. Contracted EBITDA is used in determining the Corporation's leverage covenant as required by our senior debt facility.

IRR refers to internal rate of return, which is a metric used to determine the discount rate that derives a net present value of cash flows to zero. Management uses IRR to analyze partner returns.

Tangible Net Worth refers to the sum of shareholders' equity less intangibles. The Corporation's senior credit facility requires a minimum Tangible Net Worth as a financial covenant.

Adjusted Net Working Capital refers to current assets excluding promissory notes receivables and investment tax credit receivable less current liabilities. Management believes this is a useful metric in determining the liquidity of the corporation and ability to meet its short term liabilities.

Partner company names are referred to as follows: Lower Mainland Steel Limited Partnership ("**LMS**"), SCR Mining and Tunneling, LP ("**SCR**"), Kimco Holdings, LLC ("**Kimco**"), PF Growth Partners, LLC ("**Planet Fitness**"), DNT, LLC ("**DNT**"), Federal Resources Supply Company ("**FED**" or "**Federal Resources**"), Sandbox Acquisitions, LLC ("**Sandbox**"), Providence Industries, LLC ("**Providence**"), Unify, LLC ("**Unify**"), ccCommunications LLC ("**ccComm**"), Accscient, LLC ("**Accscient**"), Sales Benchmark Index LLC ("**SBI**"), Heritage Restoration, LLC ("**Heritage**"), Fleet Advantage, LLC ("**Fleet**"), Body Contour Centers, LLC ("**BCC**" or "**Body Contour Centers**"), GWM Holdings, Inc. ("**GWM**")

The Non-IFRS measures should only be used in conjunction with the Corporation's consolidated financial statements, excerpts of which are available below, complete versions of these statements 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") in exchange for royalties, preferred distributions and interest ("Distributions") received in regular monthly payments that are contractually agreed to between the Corporation and each Private Company Partner. These payments are set for twelve months at a time and adjusted annually based on the audited performance of each Private Company Partner's gross revenue, gross margin, same store sales, or other similar "top-line" performance measure. The Corporation has limited general and administrative expenses with only fourteen employees.

Results of Operations

Quarter ended December 31, 2018 Compared to Quarter ended December 31, 2017

Three Months Ended December 31	2018	2017	% Change
Revenue per share	\$ 0.69	\$ 0.59	+16.9%
Normalized EBITDA per share	\$ 0.55	\$ 0.51	+7.8%
Net cash from operating activities per share	\$ 0.48	\$ 0.55	-12.7%
Dividends per share	\$ 0.407	\$ 0.405	+0.6%
Basic earnings per share	\$ 0.49	\$ 0.31	+58.1%
Fully diluted earnings per share	\$ 0.49	\$ 0.31	+58.1%
Weighted average basic shares (000's)	36,496	36,444	

For the three months ended December 31, 2018, revenue per share increased by 16.9% due to distributions from new investments GWM, BCC, Fleet and Heritage, organic growth through the 2018 reset in the majority of the Corporation's revenue base and the appreciation of the US dollar versus the comparable period. This was partially offset by the reduction in distributions stemming from profitable redemptions from Labstat, End of the Roll, Agility and a partial redemption of Planet Fitness units.

Normalized EBITDA of \$0.55 per share, increased 7.8% compared to the three months ending December 31, 2017 due to an increase in distributions partially offset by an increase in general & administrative costs. Net cash from operating activities was \$0.48 per share, a decrease of 12.7% compared to the three months ended December 31, 2017. The decrease is a result of a realized foreign exchange loss versus a realized gain in the comparative period, increase in general and administrative costs (specifically salaries and legal) and higher finance costs due to a larger weighted average amount of debt outstanding, partially offset by the increase in distributions. The monthly dividend was increased to \$0.1375 in December 2018, dividends paid were \$0.41 per share during three months ended December 31, 2018, resulting in an Actual Payout Ratio of 84.3% for the period.

Partner Revenue (\$ thousands)	Quarter ended December 31, 2018	Quarter ended December 31, 2017	% Change	Comment
DNT	\$ 3,774	\$ 3,433	+9.9%	Gross revenue reset +6% in Jan-18, impact of FX
SBI	3,650	3,509	+4.0%	FX impact
Federal Resources	3,534	2,783	+27.0%	Gross revenue reset +6% in Jan-18 and additional contribution in Dec-17
Body Contour Centers	2,127	-	+100.0%	Contribution closed Sept-18
Sandbox	1,817	1,491	+21.8%	Reset of +2% Jan-18 and additional contributions in Dec-17
Providence	1,561	1,429	+9.2%	Same customer sales reset +5% in Jan-18, FX impact
Accscient	1,463	953	+53.5%	Additional contributions in Jun-18 and Aug-18
LMS	1,299	1,181	+10.0%	Gross profit +12.4% Jan-18, FX impact on US investment
Planet Fitness	1,165	2,078	-43.9%	Partial redemption in May-18 partially offset by reset of +5% Jan-18 and FX
Unify	841	858	-2.0%	Partial redemption in Dec-18 partially offset by reset +2% in Jan-18, FX impact
GWM	830	-	+100.0%	Contribution closed Nov-18
Heritage	742	-	+100.0%	Contribution closed Jan-18
ccComm	774	290	+167.0%	Additional contributions in May-18
Fleet	694	-	+100.0%	Contribution closed Jun-18
SCR	450	300	+50.0%	Increase in monthly distribution from \$100k to \$150k in Apl-18
Labstat	-	1,985	-100.0%	Redemption of units in Jun-18
Agility Health	-	972	-100.0%	Redemption of units in Feb-18
End of the Roll	-	322	-100.0%	Redemption of units in Jun-18
Total Distributions	\$ 24,721	\$ 21,584	+14.5%	
Interest & other	591	61	+874.7%	New debt provided to LMS, Sandbox and Kimco versus the comparable period
Total Revenue	\$ 25,311	\$ 21,644	+16.9%	

Finance costs were \$2.8 million compared to \$1.6 million in the prior year period, a 79.7% increase due to higher weighted average debt outstanding (average outstanding debt of \$189.9 million for the three months ending December 31, 2018 versus \$127.3 million for the comparable period in 2017), in addition to higher interest rates.

Salaries and benefits were \$2.6 million in the period, an increase of 309.0% compared to \$0.6 million in the prior year period. The increase is due to the Corporation changing its incentive compensation schedule to align with its fiscal year, resulting in a bonus accrual for the second half of 2018 of \$1.9 million. Base salaries and benefit expense were comparable to the prior year period. Corporate and office expenses were \$0.7 million in the period, a decrease of 0.9% compared to the prior year period.

Legal and accounting fees were \$1.3 million in the period, an increase of 93.0% compared to \$0.7 million in the prior year period. The increase is due to the Corporation incurring higher legal fees related to managing opportunities and business issues with existing partners and corporate matters.

The Corporation recognized \$3.9 million of transaction diligence costs during the three month period as a result of the adoption of IFRS 9. The preceding accounting standards permitted transaction diligence costs related to successful transactions to be capitalized. Under the new standard (effective January 1, 2018) the Corporation is required to recognize the costs through profit and loss when incurred. The \$3.9 million expense includes all transaction diligence costs incurred since the adoption of IFRS 9.

For the three months ended December 31, 2018 the Corporation incurred stock-based compensation expenses of \$0.6 million (2017 - \$0.8 million) which includes: \$0.4 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - \$0.5 million); and \$0.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - \$0.3 million).

Earnings were \$17.9 million in the period, an increase of 57.5% compared to \$11.4 million in the prior year period. The increase is due to higher distributions, an increase in unrealized foreign exchange gains, the comparable period including a \$13.6 million bad debt expense, partially offset by higher taxes, salaries and benefits, corporate overhead and the requirement to expense transaction diligence costs. The below normalized EBITDA metric provides a more accurate depiction of operating results for the three month period.

The Corporation recorded EBITDA of \$24.7 million and Normalized EBITDA of \$20.1 million for the three months ended December 31, 2018 compared to EBITDA of \$8.1 million and Normalized EBITDA of \$18.5 million for the three months ended December 31, 2017. The 8.5% increase in Normalized EBITDA is a result of higher distributions from new partners GWM, BCC, Fleet and Heritage, 2018 positive resets, and follow on contributions into Accscient, Federal Resources and ccComm. These were partially offset by redemptions in Labstat, Agility and End of the Roll as well as higher corporate overhead costs.

Reconciliation of Net Income to EBITDA (\$ thousands)	Three Months Ended December 31, 2018	Three Months Ended December 31, 2017
Earnings	\$ 17,981	\$ 11,414
Adjustments to Net Income:		
Amortization and depreciation	42	67
Finance costs	2,830	1,575
Income tax expense	3,855	(4,964)
EBITDA	\$ 24,708	\$ 8,092
Normalizing Adjustments		
Increase in investments at fair value	(386)	-
Transaction diligence costs	3,957	-
Bad debt expense	-	13,617
Unrealized (gain) on foreign exchange	(8,387)	(2,081)
Realized (gain) / loss on foreign exchange	218	(852)
Penalties and fees & Accretion on prom notes	-	(250)
Normalized EBITDA	\$ 20,110	\$ 18,527

Quarter ended December 31, 2018 Compared to Quarter ended December 31, 2017

Year Ended December 31	2018	2017	% Change
Revenue per share	\$ 2.74	\$ 2.44	+12.3%
Normalized EBITDA per share	\$ 2.21	\$ 2.11	+4.7%
Net cash from operating activities per share	\$ 2.15	\$ 1.85	+16.2%
Dividends per share	\$ 1.622	\$ 1.620	+0.1%
Basic earnings per share	\$ 1.67	\$ 0.33	+406.1%
Fully diluted earnings per share	\$ 1.65	\$ 0.32	+415.6%
Weighted average basic shares (000's)	36,490	36,447	

For the year ended December 31, 2018, revenue per share increased by 12.3% due to distributions from new partners GWM, BCC, Fleet, Heritage, SBI and Accscient as well as full distributions received from Labstat in the first half of the year plus an additional \$4.2 million of previously forgone distributions received as part of their redemption. Distributions were also favourably impacted by the 2018 positive resets for the majority of our portfolio and follow on contributions into Federal Resources, Sandbox, Accscient and ccComm. This was partially offset by the reduction in distributions from the profitable redemptions of Sequel, Agility and End of the Roll.

Normalized EBITDA of \$2.21 per share increased by 4.7% compared to the year ending December 31, 2017 due to higher distributions, partially offset by higher corporate expenses, salaries and benefits and legal and accounting fees.

Net cash from operating activities was \$2.15 per share, an increase of 16.2% compared to the year ended December 31, 2017. The increase is a result of higher distributions (including Labstat as described above), the collection of US\$2.9 million of unpaid distributions upon redemption of the Agility units and the 2017 Labstat sweep of \$4.2 million. Dividends paid were \$1.622 per share during the year ended December 31, 2018, and an Actual Payout Ratio of 75.8% for the year. Excluding the one-time collection of the Agility accrued receivables and the collection of previously forgone distributions from Labstat, the Actual Payout Ratio would have been 83.4%.

Partner Revenue (\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017	% Change	Comment
DNT	\$ 14,831	\$ 14,215	+4.3%	Gross revenue reset +6% in Jan-18, offset by US\$2.2M redemption, impact of FX
SBI	14,320	4,641	+208.5%	Contribution closed Sept-17
Federal Resources	13,864	11,074	+25.2%	+6% Gross Revenue in Jan-18, follow on contribution Dec-17
Labstat	8,340	7,940	+5.0%	\$4.2M of additional distributions on exit, max distributions until redemption in Jun-18
Sandbox	7,150	4,909	+45.7%	Follow on contributions Sept-17 and Dec-17, +2% reset Jan-18
Planet Fitness	6,349	8,488	-25.2%	Partial redemption in May-18, offset by +5% same club sales increase Jan-18
Providence	6,125	5,843	+4.8%	+5% same customer sales increase Jan-18, FX impact
LMS	5,170	4,746	+8.9%	Gross profit reset of +12.4% Jan-18, FX impact on USD distribution
Accscient	4,711	1,926	+144.6%	Contribution closed Jun-17, addt contributions in Jun-18 and Aug-18
Unify	3,502	3,506	-0.1%	+2% gross revenue increase Jan-18, offset by partial redemption Dec-18
Heritage	2,730	-	+100.0%	Contribution closed Jan-18
Body Contour Centers	2,495	-	+100.0%	Contribution closed in Sept-18
ccComm	2,299	883	+160.4%	Additional contributions in Aug-17 and May-18
SCR	1,650	600	+175.0%	Monthly distributions of \$100k from Jul-18 to Apl-18 increasing to \$150k thereafter
Fleet	1,495	-	+100.0%	Contribution closed in Jun-18
GWM	830	-	+100.0%	Contribution closed in Nov-18
Kimco	780	-	+100.0%	Partial distributions of US\$100k per month Apl-18 to Sept-18
End of the Roll	692	1,266	-45.4%	Redemption of all units in Jun-18
Agility Health	637	3,972	-84.0%	Redemption of all units in Feb-18
Sequel	-	12,174	-100.0%	Redemption of all units in Sept-17
Group SM	-	500	-100.0%	Distributions recorded as received
Total Distributions	\$ 97,970	\$ 86,684	+13.0%	
Interest & other	2,109	2,389	-11.7%	Decrease in interest from Group SM partially offset by interest on Kimco, LMS and Sandbox notes
Total Revenue	\$ 100,079	\$ 89,073	+12.4%	

Finance costs were \$8.9 million compared to \$6.6 million in the prior year, a 34.6% increase due to higher interest rates on US and CDN denominated debt and a higher weighted average debt outstanding (average outstanding debt of \$147.4 million for the year ending December 31, 2018 versus \$112.3 million for the comparable period in 2017).

Salaries and benefits were \$5.4 million in the period, an increase of 59.7% compared to \$3.4 million in the prior year period. The increase is due to higher base salaries and a one-time realignment of the incentive compensation schedule to coincide with the fiscal calendar previously based on a year over year change at June 30th. The change resulted in an additional half year bonus accrual of \$1.9 million for the last six months of 2018.

Corporate and office expenses were \$3.4 million in the period, an increase of 31.3% compared to \$2.6 million in the prior year period. The increase is due to one-time IT spending, consulting fees and a GST penalty refund in the comparable period.

Legal and accounting fees were \$3.3 million in the period an increase of 59.0% compared to \$2.1 million in the prior year period. The increase is due to the Corporation incurring higher accounting and legal fees related to existing partners, legal fees on prospective deals which were expensed and corporate matters in 2018 including: the KMH

strategic process, the Kimco restructuring, the Sandbox recapitalization and some additional consulting costs incurred on behalf of partner companies as part of an increased effort to support our current portfolio.

The Corporation recognized \$3.9 million of transaction diligence costs during the year ended December 31, 2018 as a result of the adoption of IFRS 9, as explained previously. Had the same accounting standard been in place for the year ended December 31, 2017, the Corporation would have recognized a \$1.3 million expense. The increase is a result of completing more transactions, and partner refinancing then the comparable period. The quantum of transactions costs vary based on the specifics of each deal. Transaction diligence costs are directly related to the Corporation's investing activity and therefore presented as cash flow from investing and do no impact the Corporation's Actual Payout Ratio. The transaction diligence costs are also added back to Normalized EBITDA although recurring they are an investment function as opposed to operating cash flow which Normalized EBITDA represents.

For the year ended December 31, 2018 the Corporation incurred stock-based compensation expenses of \$2.9 million (2017 - \$3.4 million) which includes; \$1.9 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - \$2.2 million); and \$1.0 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - \$1.2 million).

Earnings were \$60.8 million in the period, an increase of 411.7% compared to \$11.9 million in the prior year period. The increase is due to higher partner distributions, a significant swing in unrealized foreign exchange gains and losses as the USD appreciated versus the CAD, and lower impairment and bad debt expenses related to Group SM and KMH, partially offset by the expensing of deal related transaction diligence costs. The below normalized EBITDA description provides additional details on a more comparable change in period over period results.

The Corporation recorded EBITDA of \$85.3 million and Normalized EBITDA of \$80.8 million for the year ended December 31, 2018 compared to EBITDA of \$29.0 million and Normalized EBITDA of \$77.0 million for the year ended December 31, 2017. The 5.0% increase in Normalized EBITDA is a result of the addition of new partners (Body Contour Centers, Fleet, Heritage, SBI), follow on contributions into existing partners (Federal Resources, Sandbox, Accscient and ccComm) in addition to top of the collar resets for the majority of the portfolio in 2018, partially offset by the reduction of distributions as a result of profitable redemptions (Sequel, Labstat, End of the Roll and Agility) and higher corporate expenses.

Reconciliation of Net Income to EBITDA (\$ thousands)	Year ended December 31, 2018	Year ended December 31, 2017
Earnings	\$ 60,796	\$ 11,882
Adjustments to Net Income:		
Amortization and depreciation	214	268
Finance costs	8,858	6,582
Income tax expense	15,436	10,274
EBITDA	\$ 85,303	\$ 29,006
Normalizing Adjustments		
(Gain) on disposal of investment	(8,144)	(26,575)
Increase in investments at fair value	(11,537)	-
Transaction diligence costs	3,957	-
Impairment and other charges	-	42,491
Bad debt expense	25,974	23,430
Distributions received on redemption (Labstat)	(4,282)	-
Unrealized (gain) / loss on foreign exchange	(10,534)	10,649
Realized (gain) / loss on foreign exchange	73	(1,370)
Penalties and fees & Accretion on prom notes	-	(652)
Normalized EBITDA	\$ 80,810	\$ 76,978

Outlook

Distributions for 2019 are expected to be \$110.1 million based on run rate distributions, which include 2019 contracted amounts inclusive of known resets, \$1.8 million from SCR and no distributions from Kimco. Distributions for Q1 2019 are expected to be \$27.4 million. Annual general and administrative expenses are currently estimated at \$10.0 million for 2019 and include all public company costs. The Corporation's Run Rate Payout Ratio is just under 90%. The table below sets out our estimated Run Rate Payout Ratio alongside the after-tax impact of potential changes to certain Partners distributions.

There is no impact of the change in accounting policy to expense all deal related costs as we have not incorporated the corresponding transaction in the run rate distributions, interest or taxes. The Corporation's transaction diligence costs have historically (2014-2018) represented a one-time cost averaging 2.0% of capital deployed. Transaction diligence costs vary by deal due to the individual intricacies of each transaction. Although the Corporation manages transaction diligence costs carefully it is not an area which we attempt to minimize as they are an integral part in our transaction process.

Run Rate Cash Flow	Comments	Amount (\$)	\$ / Share
Revenue	\$1.32 USD/CAD exchange rate	\$ 110,100	\$ 3.02
General & Admin.		(10,000)	(0.27)
Interest & Taxes		(32,800)	(0.90)
Free cash flow		\$ 67,300	1.85
Annual Dividend		60,200	1.65
Excess Cash Flow		\$ 7,100	\$ 0.20
Other Considerations (after taxes and interest):			
SCR & Kimco	Every addtl \$2 million in distributions received is \$0.05/share	+1,600	+0.05
New Investments	Every \$50 million deployed @ 14%	+3,188	+0.09

The senior debt facility was drawn to \$228.1 million at December 31, 2018, with the capacity to draw up to another \$71.9 million based on covenants and credit terms, in addition to the \$50 million accordion facility for a total of \$121.9 million. The annual interest rate on that debt was approximately 5.7% at December 31, 2018.

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 2019. 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.

Private Company Partner Update

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

The following is a summary of each of the Partners recent financial results. Included in this summary will be a comment on the Partners' Earnings Coverage Ratio ("ECR"). Because this information other than with respect to fiscal year end is based on unaudited information provided by Private Company Partner management, each ECR, based on the most current information for the trailing twelve months, will be identified as part of a range. The ranges are: less than 1.0x, 1.0x to 1.2x, 1.2x to 1.5x, 1.5x to 2.0x and greater than 2.0x. A result greater than 1.0x is considered appropriate and the higher the number is, the better the ratio.

Additionally, the Corporation has disclosed the percentage of current run rate revenue based on the expected distributions from each Partner for the next twelve months based on information at March 5, 2019. Interest from promissory notes is 3.3% of run rate distributions from Partners.

Alaris Portfolio

Annual Distribution	Total run rate distributions of \$110.1 million of which over 90.0% is USD denominated (US\$78.4 million)
Description	<p>The Corporation's investment thesis is to generally partner with companies that have:</p> <ul style="list-style-type: none"> (i) A history of success (average age of partners is approximately 19 years) <ul style="list-style-type: none"> • Offer a required service or products in mature industries • Low risk of obsolescence • Non-declining asset bases (no exploration companies) • (ii) Proven track record of free cash flow (iii) Low levels of debt - Allows excess cash flow to remain in the business to support growth and the Alaris distribution rather than paying principal and interest on debt. (iv) Low levels of capital expenditures required to maintain/grow a business - None of our partners are required to reinvest much of their cash flow back into their operations as they are typically asset light businesses with minimal equipment requirements. (v) Management continuity and quality management teams - The Corporation has invested in 29 partners since inception, exited our investment in thirteen partners over that time with ten yielding highly positive results displayed by a total return of 73% and a median IRR of 21%.
Contribution History	The Corporation has invested over \$1.2 billion into 29 partners and over 60 tranches of financing, including an average of approximately \$150 million over the past five fiscal years (2013 – 2018).
Performance	The Corporation discloses an ECR to provide information on the financial health of our partners. The Corporation has four partners with ECR greater than 2.0x, two in the 1.5x-2.0x range, four between 1.2x-1.5x, three in the 1.0x-1.2x range and three less than 1.0x.
Capital Structure	As a preferred equity investor we have invested in a diverse group of capital structures and we pride ourselves on achieving the optimal capital structure for our partners so both Alaris and our partners benefit. Of our existing portfolio six of our sixteen have no debt, two partners have less than 1.0x Senior Debt to EBITDA and seven partners have debt greater than 1.0x Senior Debt to EBITDA.
Reset	The annual distribution reset is another feature of our capital which we view as win-win. It aligns our interest with our partners while providing the majority of the upside to the entrepreneurs who create the business value. Of the partners which had resets effective in 2018 (mostly January 1st), all had positive resets with six hitting the top of their collar (+5% to 6%).

Accscient

Annual Distribution	US\$5.6 million (or 6.7% of run rate revenue)
Description	Accscient provides IT Staffing, Consulting, and Outsourcing services and specializes in Digital Infrastructure Management, Enterprise Resource Planning, Business Intelligence and Database Administration.
Contribution History	<p>In June 2017, the Corporation contributed US\$20.0 million into Accscient (US\$14.0 million permanent units and US\$6.0 million redeemable units).</p> <p>In June 2018, the Corporation contributed an additional US\$3.0 million, in exchange for an annualized distribution of US\$0.4 million. In August 2018, the Corporation contributed an additional US\$7.0 million, in exchange for an annualized distribution of US\$1.0 million. Both follow on contributions were to fund or partially fund an acquisition which broadens their IT service offerings.</p> <p>Subsequent to year end, on January 12, 2019, the Corporation contributed an additional US\$8.0 million, in exchange for an annualized distribution of US\$1.1 million. The proceeds were used to partially fund an acquisition in its related industry.</p>
Performance	<p>Based on unaudited statements provided by management for the year ended December 31, 2018, revenue, gross profit and EBITDA have increased versus the comparable period.</p> <p>The Accscient Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross profit and has a collar of plus or minus 6%. The Corporation expects the reset to be flat.</p>
Fair Value	The fair value of the Accscient units remained unchanged during the three months ended December 31, 2018 and increased by US\$0.6 million during the year ended December 31, 2018. The fair value of the Accscient units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Accscient units is evaluated each quarter.
ECR	The Earnings Coverage Ratio has increased since last quarter and remains between 1.5x and 2.0x.

Body Contour Centers

Annual Distribution	US\$6.4 million (or 7.8% of run rate revenue)
Description	Body Contour Centers operates one of the largest private plastic surgery practice in the United States with over 50 locations across the country. Operating in nearly 30 states, it combines a consistent patient experience with the art of treating each patient as an individual with unique plastic surgery needs. Procedures are conducted by over 100 board-certified plastic surgeons and every surgical center is certified by AAAHC, the highest-level certification for plastic surgery. BCC is growing rapidly, doubling its location count over the last two years.
Contribution History	On September 14, 2018, the Corporation entered into subscription and operating agreements with BCC, pursuant to which the Corporation made the initial contribution of US\$46.0 million in exchange for preferred units in BCC, which entitles the Corporation to an initial annual distribution of US\$6.4 million. BCC has the option to pay a portion of the BCC distribution, subject to a maximum of 2% of the aggregate contributed capital any given year as payment in kind ("PIK") provided that any amounts subject to the PIK must be paid in cash every three years.

Contribution History	<p>The Corporation, has also committed as part of the operating and subscription agreements with BCC to the additional contributions consisting of US\$20.0 million ("Tranche 2") and US\$25.0 million ("Tranche 3"). The additional contributions will be funded upon BCC satisfying certain financial targets. The Corporation does not expect to fund Tranche 2 until late 2019 or 2020.</p> <p>The additional BCC contributions will carry the same terms as the original BCC contribution. Up to 25% of the BCC units are redeemable at par at any time following the earlier of the second tranche closing and three years from the original closing date, prior to such time these units are non-redeemable. The BCC contribution was used to provide partial liquidity to existing equity holders.</p>
Performance	<p>Based on unaudited statements provided by management for the year ended December 31, 2018, revenue is consistent with the comparable period while EBITDA has decreased due to challenges with sales performance at identified locations as BCC significantly grew their number of clinics. BCC management has addressed the issue through focused recruiting and onboarding efforts with improvements expected in future quarters.</p> <p>The BCC distribution will be adjusted annually (commencing January 1, 2020) based on the change in same clinic sales, subject to a 6% collar.</p>
Fair Value	<p>The fair value of the BCC units remain unchanged from the date of investment. The fair value of the BCC units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the BCC units is evaluated each quarter.</p>
ECR	<p>The Earnings Coverage Ratio has declined since the last period and is now below 1.0x. BCC has no debt and a large amount of cash reserves, the Corporation expects their ECR to improve in the coming quarters.</p>

ccComm

Annual Distribution	<p>US\$2.3 million (or 3.1% of run rate revenue)</p>
Description	<p>ccComm is a Sprint retailer with over 95 locations throughout the Northwest and Central U.S.</p>
Contribution History	<p>In January 2017, the Corporation purchased preferred units in ccComm for US\$4.0 million. The Corporation contributed an additional US\$2.2 million in August 2017 to complete an acquisition of additional Sprint retail locations.</p> <p>In May 2018, the Corporation contributed an additional US\$10.0 million to fund the acquisition of additional Sprint locations. In exchange for the contribution, the Corporation is entitled to an annualized distribution of US\$1.4 million.</p>
Performance	<p>ccComm's revenue and EBITDA have decreased for the year ended December 31, 2018, compared to the same period in 2017. ccComm completed an acquisition of poor performing Sprint locations in September 2017 which have been a cash drag on the business in addition to a reduction in Sprint commission rates and lower volumes impacting their profitability.</p> <p>Distributions will increase or decrease based on net revenue to a collar of +/- 6%.</p>
Fair Value	<p>The fair value of the ccComm units were decreased by US\$0.4 million during the three month period and year ended December 31, 2018 as future reset perspectives were reduced. The fair value of the ccComm units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the ccComm units is evaluated each quarter.</p>
ECR	<p>The Earnings Coverage Ratio at December 31, 2018 has remained unchanged from last quarter and remains below 1.0x. The Corporation expects a rebound in ECR in the upcoming quarters and no disruption in distributions.</p>

DNT

Annual Distribution	US\$11.4 million (or 13.8% of run rate revenue)
Description	DNT specializes in turnkey civil construction services to residential, commercial and municipal end markets including excavation, the installation of wet and dry utilities such as electrical, gas, sewage and water in the Austin, San Antonio corridor.
Contribution History	<p>In June 2015, the Corporation purchased preferred units in DNT, for an aggregate acquisition cost of US\$70.0 million (US\$40.0 million permanent units and US\$30.0 million redeemable units).</p> <p>In June 2018, DNT repaid US\$0.2 million of the outstanding redeemable units as required under their annual redemption calculation, bringing the total redeemed units to US\$2.2 million since the investment date.</p>
Performance	<p>Based on unaudited financial statements provided by management for the eleven months ended November 30, 2018, DNT's gross revenue is unchanged and EBITDA down slightly versus the comparable period due to wet operating conditions and tightening of the labour market.</p> <p>Annual increase or decrease in DNT's distribution to Alaris is subject to a collar of +/- 6% and is based on gross revenues.</p>
Fair Value	The fair value of the DNT units were decreased by US\$2.5 million during the three months and year ending December 31, 2018 as the 2020 reset expectation was lowered due to the aforementioned operational constraints. The fair value of the DNT units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has decreased since last quarter and remains between 1.2x and 1.5x.

Federal Resources

Annual Distribution	US\$11.4 million (or 13.7% of run rate revenues)
Description	Federal Resources is a leading value-added provider of mission critical products and solutions to defense, first responder, homeland security and maritime end users in the United States.
Contribution History	<p>In June 2015, the Corporation announced a US\$7.0 million subscription for preferred stock of Federal Resources and a US\$40.0 million secured subordinated loan (the "FED Loan") to Federal Resources, for an aggregate cost of US\$47.0 million. In exchange for the Federal Resources Units and Loan, the Corporation was initially entitled to a combined US\$7.1 million of annual distributions.</p> <p>In April 2016 and December 2017 Alaris made additional contributions of US\$6.5 million and US\$13.5 million in subsidiaries of Federal Resources. The additional contributions were used to fund or partially fund acquisitions in their industry.</p>
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2018, Federal Resource's revenue has increased well above the 6% collar and EBITDA has declined slightly versus the comparable period. The Corporation is expecting a maximum +6% increase effective January 1, 2019.
Fair Value	The fair value of the Federal Resources units were unchanged during the three months ended December 31, 2018 and were increased for a total of US\$1.4 million for the year ended as the Federal Resources distribution reset of +6% effective January 1, 2019, became more apparent throughout the year. The fair value of the Federal Resources investment in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Federal Resources has decreased since the last quarter and is now between 1.0x and 1.2x as higher interest costs, principle repayments and our distributions have increased since the comparable period.

Fleet

Annual Distribution	US\$2.1 million (or 2.5% run rate revenue)
Description	Fleet serves America's top truck fleets and guarantees the lowest cost of operation by providing truck leasing and matching proprietary data driven IT processes with fleet analytics using the latest eco-efficient clean diesel technology to achieve optimum vehicle productivity, while reducing operating costs.
Contribution History	<p>On June 15, 2018 the Corporation entered into subscription and operating agreements with Fleet, pursuant to which the Corporation contributed US\$15.0 million, which entitles the Corporation to an initial annual distribution of US\$2.1 million. Fleet has the option to pay a portion of the distribution, subject to a maximum of 2% (US\$0.3 million in the first year) of the annualized yield in any given year as PIK (similarly detailed in BCC above) provided that any amounts subject to the PIK must be paid in cash every three years. US\$7.5 million of the Fleet units are redeemable at par at any time.</p> <p>The Fleet distribution will be adjusted annually (commencing January 1, 2020) based on the change in net revenues, subject to a 6% collar. The Fleet contribution was used to fund continued growth and provide partial liquidity to existing shareholders.</p>
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2018, Fleet's revenue and EBITDA are trailing the comparable period, which was expected at the time of the investment.
Fair Value	The contribution closed in June 2018 and there was no change in the fair value of the Fleet units during the three months ending December 31, 2018. The fair value of the Fleet units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has decreased slightly since the last period and is now between 1.2x to 1.5x.

GWM

Annual Distribution	US\$5.6 million (or 6.8% of run rate revenue)
Description	GWM provides data-driven digital marketing solutions for advertisers globally. The company manages performance and branding campaigns for advertisers across all forms of digital media including display, video, connected TV, social, and email on devices including computers, mobile, tablets, and Connected TV.
Contribution History	<p>On November 19, 2018, the Corporation entered into subscription and operating agreements with GWM, pursuant to which the Corporation invested a total of US\$46.0 million (US\$41.5 million of subordinated debt and US\$4.5 million of preferred units). The Corporation is entitled to an annual distribution of US\$5.6 million for the first full year following the transaction, which equates to an initial yield of 12.1%. The combination of debt and preferred equity selected by the Corporation was a result of GWM being a Corporation, compared to a Limited Liability Corporation ("LLC"). Due to GWM being a Corporation, a portion of the distributions received have already been taxed, therefore the initial yield of 12.1% is equivalent to a 13.0% yield under the Corporations traditional structure.</p> <p>The GWM distribution will reset with a collar of +/- 8% annually based on gross revenue. The wider collar on the GWM distribution will allow Alaris to capture more upside through larger resets as GWM is expecting significant growth in the years to come. Given the growth profile of GWM, the 8% collar and an 8.57x predetermined exit multiple, Alaris is expecting returns equal to or greater than prior deals that had higher first year pre-tax yields. GWM used the proceeds from the GWM contribution to complete a management buyout of an existing equity sponsor.</p>
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2018, GWM's revenue and EBITDA are both consistent with their results at the date of the investment.

Fair Value	The fair value of the GWM units remained unchanged since the date of investment. The fair value of the GWM units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for GWM remains unchanged since our investment date and remains between 1.5x and 2.0x.

Heritage Restoration

Annual Distribution	US\$2.4 million (or 2.9% of run rate revenue)
Description	Heritage is a leading specialty contractor providing masonry and masonry related services to the commercial building industry. With a focus on the restoration of existing structures, Heritage's services include masonry procurement, installation and restoration, concrete structure restoration, waterproofing and coating repair, Heritage provides quality customer service and workmanship throughout the entire New England area.
Contribution History	On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage, pursuant to which the Corporation invested US\$15.0 million in exchange for preferred units in Heritage. The Corporation is entitled to an annual distribution of US\$2.3 million for the initial year following the transaction, which equates to an initial yield of 15%. US\$3.0 million of the Heritage units are redeemable at par at any time. The Heritage distribution will reset with a collar of +/- 6% annually based on gross revenue.
Performance	Based on unaudited financial statements provided by management for the year ended November 31, 2018, Heritage's revenue and EBITDA have both increased versus the comparable period and the Corporation is expecting a maximum +6% increase to annual distributions effective January 1, 2019.
Fair Value	The fair value of the Heritage units were unchanged in the three months ended December 31, 2018 and were increased by US\$0.8 million during the year ended December 31, 2018 as the maximum reset is expected effective January 1, 2019. The fair value of the Heritage units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Heritage has decreased since last quarter and remains above 2.0x.

Kimco

Annual Distribution	Received US\$0.9 million for the year ended December 31, 2018. Distributions will be recorded as received with no amount included in the run rate distributions or Run Rate Payout Ratio
Description	Kimco provides commercial janitorial services to over 375 customers which range in size from multi-location national customers to regional single-site customers.
Contribution History	<p>In June 2014, the Corporation purchased preferred units in Kimco for an aggregate acquisition cost of US\$29.2 million. The Corporation purchased additional preferred units for US\$3.0 million in December 2015 and US\$2.0 million in November 2016.</p> <p>The Corporation contributed an additional US\$4.0 million in 2017, by way of an unsecured promissory note, to reduce Kimco's total senior debt outstanding. Kimco is currently paying 8% per annum on the debt.</p> <p>During 2018, the Corporation loaned US\$6.0 million (April 2018) to replace Kimco's existing subordinated debt from a third party, the debt bears interest of 12% per annum. The Corporation also loaned US\$3.8 million (July 2018) to provide additional capacity to fund working capital requirements. The US\$3.8 million debt bears interest of 8% per annum as the Corporation views this as a short term loan compared to the US\$6.0 million loan which it foresees as part of the capital structure long-term.</p>
Performance	Based on unaudited financial statements for the year ended December 31, 2018, revenue and EBITDA are behind the prior year due to turnover in their customer base and higher insurance costs but recent months have shown improvement over the prior period.

Fair Value	The fair value of the Kimco units were unchanged during the three months ending December 31, 2018. Kimco units have decreased a total of US\$4.2 million during the year ended December 31, 2018. The fair value of the Kimco units in Canadian dollars will fluctuate each quarter with foreign exchange rates but the underlying fair value will be evaluated each quarter in USD.
ECR	The Earnings Coverage Ratio for Kimco under the new capital structure has decreased since last quarter and remains below 1.0x. Based on management's 2019 forecast, the Corporation expects the ECR to be back above 1.0x in 2019.

LMS

Annual Distribution	CAD\$5.2 million (or 4.7% of run rate revenue)
Description	LMS is a western Canadian concrete reinforcing steel fabricator and installer with operations in British Columbia, Alberta and Southern California.
Contribution History	<p>The Corporation's original contribution into LMS was in 2007 subsequent to which it has since contributed a total of CAD\$54 million. The Corporation completed a follow on contribution in 2016 (to a U.S. affiliate) of US\$4.4 million to help LMS partially fund an acquisition.</p> <p>During the year ended December 31, 2018, the Corporation provided \$5.0 million via a short term loan bearing annual interest of 8%, escalating 2% annually. The proceeds were used to make opportunistic steel purchases prior to tariffs fully impacting prices on imported steel.</p>
Performance	Based on unaudited financial statements prepared by LMS management for the year ended December 31, 2018, revenue and EBITDA are ahead of the comparable period.
Fair Value	The fair value of the LMS Canadian units and LMS US units were unchanged during the three months ended December 31, 2018. The LMS Canadian Units were increased by \$2.6 million during the year ending December 31, 2018 due to the positive results in the current year. The fair value of the LMS US units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for LMS has increased since last quarter and remains between 1.2x and 1.5x.

Planet Fitness

Annual Distribution	US\$3.5 million (or 4.5% of run rate revenue)
Description	Planet Fitness, through its affiliates, operates over 60 fitness clubs in Maryland, Tennessee, Florida and Washington as a franchisee of Planet Fitness.
Contribution History	<p>In November 2014, the Corporation purchased preferred units in Planet Fitness, for an aggregate acquisition cost of US\$35.0 million. In July 2015, the Corporation purchased an additional US\$5.0 million of preferred units.</p> <p>In May 2018, Planet Fitness redeemed US\$19.4 million of their outstanding units for a redemption price of US\$25.0 million resulting in a US\$5.8 million gain on invested capital.</p>
Performance	Based on unaudited financial statements provided by Planet Fitness management for the year ended December 31, 2018, Planet Fitness' revenue and EBITDA are both ahead of the prior year due to organic growth of their existing clubs and the continued build out of new locations. The Corporation is expecting a maximum +5% increase to the annual distributions effective January 1, 2019.
Fair Value	The Corporation increased the fair value of the Planet Fitness units by US\$0.8 million during the three months ended December 31, 2018. This resulted in a total increase in fair value of US\$4.3 million during the year ended December 31, 2018 as a result of their partial redemption and another max reset effective January 1, 2019. The fair value of the remaining Planet Fitness units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Planet Fitness has increased from last quarter and remains above 2.0x.

Providence Industries

Annual Distribution	US\$4.5 million (or 5.4% of run rate revenues)
Description	Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers.
Contribution History	In April 2015, the Corporation contributed US\$30.0 million to Providence.
Performance	Based on unaudited financial statements provided by management for the eleven months ended November 30, 2018, Providence's revenue and EBITDA have decreased versus the comparable period due to the decline of their largest customer. Providence is no longer providing services to that customer resulting in an expected decline in their EBITDA in 2019. The Corporation is expecting a maximum 5% decrease to the annual distributions effective January 1, 2019.
Fair Value	The fair value of the Providence units was decreased by \$2.3 million during the three months ended December 31, 2018 and decreased US\$3.8 million in the full year as the largest customer that drove the +5% increase in the 2018 distributions is expected to result in a -5% reset for 2019 as it has a material impact on their same customer sales. The fair value of the Providence units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The earnings coverage ratio for Providence has decreased since last quarter and remains over 2.0x.

Sandbox

Annual Distribution	US\$5.4 million (or 6.6% of run rate revenues)
Description	Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada.
Contribution History	<p>In March 2016, the Corporation purchased preferred units in Sandbox for an aggregate acquisition cost of US\$22.0 million. The Corporation contributed an additional US\$6.0 million in September 2017 to finance an acquisition completed by Sandbox and a further US\$7.0 million in December 2017 to fund a performance earn out. The Sandbox distribution will reset annually +/-6% based on net revenue.</p> <p>The Corporation purchased the outstanding senior debt in Sandbox consisting of US\$6.6 million of amortizing term debt and \$7.4 million of an asset backed lending facility during the year ended December 31, 2018. The purchase of the senior debt provides the Corporation with additional control over the distribution of the free cash flow generated by Sandbox providing more certainty over future distributions. The term debt has annual repayments of \$1.6 million (paid monthly) and both the term debt and revolver have LIBOR linked interest rates. The senior debt also provides additional rights and remedies in addition to the Corporation's preferred equity rights.</p> <p>Subsequent to December 31, 2018 the Corporation contributed an additional US\$5.0 million in exchange for annualized distributions of US\$0.8 million. The new preferred units have a minimum repurchase premium of US\$1.0 million and may include a percentage of common equity upon redemption. The proceeds were used to fund working capital.</p>
Performance	Based on unaudited financial statements provided by Sandbox management for the year ended December 31, 2018, revenue and EBITDA have increased versus the comparable period. Sandbox two majority common equity holders, which were previously CEO and President took excessive compensation which resulted in a working capital deficiency. With significant changes in corporate governance the Corporation's cash flow and balance sheet are sustainable under the new cost structure and Sandbox expects continued revenue growth.

Fair Value	The fair value of the Sandbox units were unchanged during the three months ended December 31, 2018 and increased a total of US\$2.2 million for the year ended December 31, 2018 due to the positive reset confirmed through audited 2017 financial statements. The fair value of the Sandbox units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has increased since last quarter and remains within the 1.0x to 1.2x range.

SBI

Annual Distribution	US\$11.9 million (or 14.5% of run rate revenue)
Description	SBI is a management consulting firm specializing in sales and marketing that is dedicated to helping companies reach their sales objectives. SBI conducts in-depth market research and partners with business leaders to develop strategies that enhance performance and drive results. Through evidence-based methods, SBI creates actionable procedures that, once embraced and adopted, result in lasting success.
Contribution History	In August 2017, the Corporation contributed US\$85.0 million in SBI, in return for an annualized distribution of US\$11.1 million. The distribution will reset based on gross revenue with a collar of +/- 8%, with the first reset in January 1, 2019. The SBI contribution is made up of US\$75.0 million of permanent units as well as US\$10.0 million of redeemable units. The redeemable units can be redeemed at par at any time up to the third anniversary following the closing of the SBI contribution at SBI's discretion. After the third anniversary the redeemable units will have the same repurchase metrics as the permanent units.
Performance	Based on unaudited information provided by SBI management for the year ended December 31, 2018, revenues are ahead and EBITDA is slightly behind the prior year. The Corporation is expecting a maximum +8% increase to the annual distributions effective January 1, 2019.
Fair Value	The fair value of the SBI units were increased by US\$3.1 million during the three months ending December 31, 2018, for a total of US\$6.8 million during the year as a +8% positive reset is expected for 2019. The fair value of the SBI units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for SBI has increased as expected since the last quarter and is now just below 1.5x (between 1.2x and 1.5x).

SCR Mine Services

Annual Distribution	\$1.8 million (or 1.6% run rate revenue).
Description	SCR provides mining, surface and underground construction, electrical and mechanical services to the Canadian mining industry.
Contribution History	In May 2013, the Corporation purchased partnership units in SCR for an aggregate acquisition cost of \$40 million. The SCR distribution will reset +/-6% based gross revenue.
Performance	Based on unaudited financial statements provided by management for the eleven months ended November 30, 2018, SCR's revenue has increased and EBITDA is down slightly versus the comparable period. Effective April 1, 2018 the Corporation and SCR agreed to increase the fixed monthly distribution from \$100 thousand per month to \$150 thousand (\$1.8 million annually) along with a variable cash sweep based on available free cash flow, although no cash sweep is expected until late 2019.
Fair Value	The fair value of the SCR units increased by \$2.2 million during the three months ending December 31, 2018, for a total of \$2.7 million for the year ended December 31, 2018 due to the recent positive financial performance of SCR and expected future distributions.
ECR	The Earnings Coverage Ratio for SCR has increased slightly since the last quarter and remains below 1.0x when considering full distributions but at the current distribution rate of \$1.8 million the Earnings Coverage Ratio is between 1.0x and 1.2x.

Unify

Annual Distribution	US\$1.9 million (or 2.3% of run rate revenue)
Description	Unify is a management consulting firm that works with companies to provide innovative, customized consulting solutions across four primary service lines: Business Intelligence, Enterprise Resource Planning Services, Project Leadership & Product Management, and Organizational Change Management
Contribution History	In October 2016, Salaris USA (wholly owned subsidiary of Alaris USA Inc.) made a contribution of US\$18.0 million (comprised of US\$12.0 million of permanent units and US\$6.0 million of redeemable units) to Unify, LLC. The Unify Distribution resets annually +/-5% based on net revenue. In December 2018, Unify redeemed US\$6.0 million representing all redeemable units outstanding. The units were redeemed at par, consistent with the terms of the agreement.
Performance	Based on unaudited financial statements prepared by Unify management for the year ended December 31, 2018, revenue and EBITDA have increased significantly versus the comparable period and exceeded forecast amounts. The Corporation is expecting a maximum +5% increase effective January 1, 2019.
Fair Value	There was no change in the fair value of the Unify units during the three months and year ending December 31, 2018. The fair value of the Unify units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Unify has increased since last quarter and remains well over 2.0x.

Redemption of Preferred Units**Agility Health**

On February 28, 2018, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consisted of: (i) US\$22.2 million for the preferred units Alaris holds in Agility LLC, which includes a premium of US\$2.1 million over Alaris' original cost of US\$20.1 million; (ii) US\$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US\$1.6 million for a loan outstanding, including all interest accrued on such loan. US\$1.5 million of the repurchase price paid to Alaris was placed in escrow for 18 months to satisfy indemnification obligations under the transaction and is recorded in trade and other receivables. Following the escrow period any remaining escrowed funds will be paid to Alaris, which the Corporation expects will be the full US\$1.5 million.

Planet Fitness partial redemption

On May 11, 2018, the Corporation received a partial redemption of US\$25.0 million from Planet Fitness in exchange for preferred units which had an associated US\$3.3 million of annual distributions. The gain on the partial redemption was recorded as a fair value increase as at and for the three months ended March 31, 2018 of \$3.5 million CAD. Subsequent to the transaction, the Corporation is entitled to US\$3.5 million of run rate distributions on a remaining cost basis of US\$20.6 million and fair value of US\$23.5 million.

Labstat

On June 25, 2018, the Corporation received \$61.3 million as a result of the Labstat redemption, which represents a premium of \$13.6 million over Alaris' original cost of \$47.7 million. The fair value of the units were previously increased to reflect the maximum repurchase price, therefore no gain was recorded at the time of disposition.

Concurrent with the redemption of the preferred units, the Corporation also received \$4.3 million for previously forgone and unaccrued distributions. The previously forgone distributions were a result of the Labstat annual distributions being determined by a cash flow sweep from 2013 to 2017. The amounts received were recognized as revenue upon redemption. The Corporation had previously not assigned any value on its balance sheet to the collection of the \$4.3 million of previously forgone distributions because the amount and timing were dependent on the redemption of the preferred units.

As part of the redemption the Corporation received the repayment of the \$3.7 million promissory note outstanding and \$0.3 million of accrued interest. Prior to the redemption the Corporation also received the 2017 cash sweep of \$4.2 million.

End of the Roll

On June 29, 2018, the Corporation received \$12.6 million as a result of the End of the Roll repurchasing the outstanding intangible asset. The End of the Roll intangible asset had a carrying value of \$6.0 million and an original cost of \$7.2 million. The Corporation recognized a \$6.5 million gain at the time of redemption.

Promissory Notes

Group SM

Group SM was sold during the three months ended December 31, 2018, at the time of the sale the Corporation had \$10.0 million of secured promissory notes outstanding. The Corporation received \$5.5 million at the closing of the sale with the remaining \$4.5 million assumed by the purchaser. The purchaser is required to pay monthly interest at a rate of 6.7% and intends to refinance the outstanding debt in 2019. Subsequent to December 31, 2018 the Corporation received an additional \$0.9 million of principle repayment and all outstanding interest (\$0.1 million).

Liquidity and Capital Resources

As at December 31, 2018 the Corporation has a \$300.0 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. In 2018, an additional bank joined the lending syndicate and the facility was increased from \$280.0 million to \$300.0 million and at the same time the accordion feature was reduced from \$70 million to \$50 million. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR and the applicable spread determined by the Corporations Funded Debt to Contracted EBITDA. The Corporation realized a blended interest rate of 5.6% for the year ended December 31, 2018.

At December 31, 2018, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to ninety days (actual ratio is 2.30:1 at December 31, 2018); minimum tangible net worth of \$450.0 million (actual amount is \$635.9 million at December 31, 2018); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.21:1 at December 31, 2018). At December 31, 2018, the facility was \$228.1 million drawn, US\$167.2 million in USD denominated debt (December 31, 2017 - \$173.5 million of which \$112.7 million was denominated in USD). The Corporation has the capacity to draw up to another \$71.9 million based on covenants and credit terms, in addition to the \$50 million accordion facility for a total of \$121.9 million.

The Corporation increased their monthly dividend from \$0.135 per common share to \$0.1375 in November 2018 (effective December 2018). The Corporation declared dividends of \$0.135 per common share for the first eleven months of 2018, \$1.6225 per share and \$59.3 million in aggregate (2017 - \$1.62 per share and \$59.0 million in aggregate). The Corporation had 36,496,247 voting common shares outstanding at December 31, 2018. The Corporation had working capital of approximately \$16.0 million at December 31, 2018. 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 adjusted net working capital (defined as current assets, excluding promissory notes and investment tax credits receivable, less current liabilities) at December 31, 2018 and December 31, 2017 is set forth in the tables below.

Working Capital	31-Dec-18	31-Dec-17
Cash	\$ 22,774	\$ 35,475
Prepayments	2,181	2,407
Foreign exchange contracts	-	1,430
Trade and other receivables	923	8,642
Income taxes receivable	1,484	0
Total Current Assets	\$ 27,363	\$ 47,954
Accounts payable & accrued liabilities	3,670	1,707
Dividends payable	5,013	4,921
Foreign exchange contracts	1,333	-
Income tax payable	1,257	588
Total Current Liabilities	\$ 11,273	\$ 7,217
Adjusted Net Working Capital	\$ 16,090	\$ 40,737

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 two categories: amortized cost and fair value through profit or loss ("FVTPL"). 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	Amortized cost	Amortized cost
Trade and other receivables	Amortized cost	Amortized cost
Promissory notes and other receivable	Amortized cost	Amortized cost
Investments	FVTPL or amortized cost	Fair Value or amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Loans and borrowings	Amortized cost	Amortized cost
Foreign exchange contracts	FVTPL	Fair Value

The Corporation will assess at each reporting period whether there is a financial asset carried at amortized cost that is impaired using the expected credit loss model. An impairment loss is included in net earnings.

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from the Corporation's US investments. The Corporation matches approximately 25-60% over a rolling twelve month period based on scheduled distributions to the Canadian parent and a portion of the scheduled distributions over a rolling 12 to 24 month period based 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 unrealized gain or loss on the contracts will be recognized in profit or loss. As at December 31, 2018, for the next twelve months, the Corporation has total contracts to sell US\$21.5 million forward at an average \$1.2907 CAD. For the following twelve months, the Corporation has total contracts to sell US\$3.9 million forward at an average \$1.2990 CAD.

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

31-Dec-18	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	\$ (3,670)	\$ (3,670)	\$-	\$-	\$-
Dividends payable	(5,013)	(5,013)	-	-	-
Foreign exchange contracts	(1,333)	(835)	(330)	(168)	-
Loans and borrowings	(228,103)	-	-	-	(228,103)
Total	\$ (238,119)	\$ (9,517)	\$ (330)	\$ (168)	\$ (228,103)

The Corporation has sufficient cash on hand to settle all current accounts payable, accrued liabilities, dividends payable and all scheduled interest payments 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 and expected Partner redemptions to meet all required repayments.

Internal Controls over Financial Reporting

A. Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Corporation's management (including the CEO and CFO) of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109. Based on that evaluation, the Corporation's management (including the CEO and CFO) concluded that the Corporation's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosures of material information and are effective as of December 31, 2018. The Corporation uses the 2013 Committee of Sponsoring Organization of the Treasury Commission (COSO) framework.

B. Management Report on Internal Controls over Financial Reporting

The Corporation's management, (including the CEO and CFO) have assessed and evaluated the design and effectiveness of the Corporation's internal controls over financial reporting as defined in National Instrument 52-109 as of December 31, 2018. The Corporation's assessment included documentation, evaluation and testing of its internal controls over financial reporting. Based on that evaluation, the Corporation's management concluded that the Corporation's internal controls over financial reporting are effective as defined by National Instrument 52-109.

There were no changes in internal controls during the year ended December 31, 2018 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

Summary of Contractual Obligations

The Corporation has an outstanding senior credit facility described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its commitment to fund two additional contributions (first for US\$20.0 million and second of US\$25.0 million) to Body Contour Centers ("BCC") when specified financial metrics have been reached, and leases for office space. The Corporation agreed to a five-year lease commencing July 2015 at its current location with remaining leasing commitments of \$0.8 million.

Contractual Obligations	Total	< 1 year	1 – 3 years	4 – 5 years	> 5 years
Long term debt	\$ 228,103	\$ -	\$ -	\$ 228,103	\$-
Additional Contributions to BCC	61,394	27,286	34,108	-	-
Office lease	647	432	216	-	-
Total Contractual Obligations	\$ 290,144	\$ 27,718	\$ 34,323	\$ 228,103	\$-

Related Party Transactions

The Company had no transactions with related parties for the years ending December 31, 2018 or 2017.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Due to restrictions under the Option and RSU plans no Options or RSUs were granted to key management personnel during the year ended December 31, 2018. Key management personnel compensation comprised the following:

Key Management Personnel	2018	2017
Base salaries and benefits	\$ 892	\$ 854
Bonus	920	407
Share-based payments (non-cash)	-	2,033
Total	\$ 1,812	\$ 3,294

Critical Accounting Estimates and Policies

Management is required to make estimates when preparing the financial statements. Significant estimates include the valuation of investments at fair value, valuation of accounts receivable and promissory notes and income taxes. Refer to the consolidated financial statements for the year ended December 31, 2018.

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.

Recent Accounting Pronouncements

IFRS 9: Financial Instruments

The Corporation has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018.

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by fair value through profit or loss ("FVTPL"), fair value through other comprehensive income and amortized cost.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities and the Corporation does not anticipate any changes in classification or measurement of financial liabilities on transition to IFRS 9.

A new expected credit loss model for calculating impairment on financial assets classified at amortized costs replaces the incurred loss impairment model used in IAS 39. The new model will result in more timely recognition of expected credit losses.

When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg. an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

The classification and measurement of investments on transition to IFRS 9 as FVTPL is due to the business model of held to collect, and contractual cash flows being other than solely payments of principal and interest. Although the investments at FVTPL ("investments at fair value") will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. On the date of transition no investment was classified at amortized cost. Therefore a transition adjustment of \$17.0 million was made to move cumulative fair value gains or losses from the fair value reserve to retained earnings.

For those financial assets classified and measured at amortized cost, the expected credit loss model is applied to determine impairment of financial assets. This applies to trade and other receivables, as well as promissory notes receivable. There was no material change from its existing methodology in determining credit losses to the expected credit loss model that will be applied to assets classified at amortized cost. Therefore, there was no transition adjustment required.

In addition, IFRS 9 requires that transaction costs be expensed as incurred for financial assets measured at FVTPL. Prior to the adoption of IFRS 9 on January 1, 2018, the Corporation capitalized transaction diligence costs (legal and accounting costs) relating to a specific investment once a letter of intent had been signed. These costs were added to the fair value of the individual investment. As a result of adopting IFRS 9, the Corporation is now required to expense these costs through profit and loss when incurred. During 2018, the Corporation expensed \$3.9 million of transaction diligence costs that would have been capitalized under the previous accounting policy. As the Corporation investments at December 31, 2017 were recorded at fair value, there was no adjustment to opening retained earnings to reflect this change in treatment. This resulted in

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, there has been no change to the Corporation's revenue recognition and no transition adjustment was required.

As a result of the adoption of the standard as outlined above the following there were a number of account policy changes, please see the accompanying consolidated financial statements for additional disclosures.

Summary of Annual and Quarterly Results

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

In each period, an unrealized (non-cash) foreign exchange gain/loss has impacted earnings.

Annual Results Summary	2018	2017	2016
Revenue	\$ 100,079	\$ 89,073	\$ 100,042
Earnings	60,796	11,882	66,553
Basic and Diluted Income per Share/Unit	Basic - \$1.67	Basic - \$0.33	Basic - \$1.83
	Diluted - \$1.65	Diluted - \$0.32	Diluted - \$1.81
Total Assets	891,378	798,867	787,221
Total Liabilities	255,513	194,322	132,523
Cash Dividends/Distributions declared per Share/Unit	Basic - \$1.622	Basic - \$1.620	Basic - \$1.620
	Diluted - \$1.610	Diluted - \$1.606	Diluted - \$1.600

In 2018, the Corporation recorded a \$8.1 million gain on redemption of Labstat, End of the Roll and Agility units, \$14.6 million increase in investments at fair value, \$25.9 million bad debt expense as promissory notes owed from Group SM and KMH were written down to nil, and \$10.6 million of foreign exchange gains were recorded.

In 2017, the Corporation recorded \$23.4 million in bad debt expense as unpaid distributions from Group SM and the SHS promissory note were written off in addition to a \$13.1 million reserve related to promissory notes and other receivables, the Corporation also recorded \$42.5 million in impairment and other charges as the fair value of the Group SM units were reduced to nil in the period (\$41.0 million) and the long-term Phoenix promissory note was discounted (\$1.5 million). The Corporation also realized a \$26.6 million gain on the redemption of Sequel.

Quarterly Results Summary	Q4-18	Q3-18	Q2-18	Q1-18	Q4-17	Q3-17	Q2-17	Q1-17
Revenue	\$ 25,311	\$ 22,685	\$ 28,442	\$ 23,641	\$ 21,638	\$ 23,775	\$ 22,779	\$ 20,881
Earnings	\$ 17,981	\$ 19,100	\$ 26,863	\$ (3,146)	\$ 11,410	\$ (22,031)	\$ 10,656	\$ 11,849
Basic and Diluted Income (loss) per Share/Unit	\$ 0.49	\$ 0.52	\$ 0.74	\$ (0.09)	\$ 0.31	\$ (0.60)	\$ 0.29	\$ 0.33
	\$ 0.49	\$ 0.52	\$ 0.73	\$ (0.09)	\$ 0.31	\$ (0.60)	\$ 0.29	\$ 0.32

In Q4 2018, the Corporation recorded a \$0.3 million increase in investments at fair value. In Q3 2018, the Corporation recorded a \$7.1 increase in investments at fair value. In Q2 2018, the Corporation recorded a \$6.4 million gain on the repurchase of the End of the Roll intangible asset, a partial redemption of the Planet Fitness units and a \$0.5 million increase in the fair value of investments at fair value. In Q1 2018, the Corporation recorded a \$1.8 million gain on the redemption of the Agility units, a \$3.5 million increase in the fair value of investments at fair value and a \$25.9 million bad debt expense related to the Phoenix and Group SM promissory note and Group SM accounts receivable. The Corporation began recognizing changes in the fair value of investments at fair value through earnings, effective January 1, 2018. Previously they were recognized in OCI and therefore not included in the below adjustment.

In Q4 2017, the Corporation recorded a \$13.6 million bad debt expense as the remainder of the SHS promissory note was written off and a reserve related to the Kimco, Group SM and Phoenix promissory notes. In Q3 2017, the Corporation recorded \$9.8 million in bad debt expense as unpaid distributions from Group SM were written off, the Corporation also recorded \$41.0 million in impairment charges as the fair value of the Group SM units were reduced to nil in the period and realized a \$26.6 million gain on the redemption of Sequel.

Outstanding Shares

At December 31, 2018, the Corporation had authorized, issued and outstanding, 36,496,247 voting common shares.

For the year ended December 31, 2018, 15,000 shares were issued on the vesting of RSUs and no options were granted, issued or exercised. At December 31, 2018, 276,651 RSUs and 2,242,364 stock options were outstanding under the Corporation's long-term incentive compensation plans. The outstanding stock options have a weighted average exercise price of \$25.56, and as of December 31, 2018 all 2,242,364 options outstanding are out of the money.

At March 5, 2019, the Corporation had 36,496,247 common shares outstanding.

Income Taxes

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately \$121 million of non-capital losses and utilization of \$6.8 million in investment tax credits ("ITC's") by the Corporation was denied, resulting in reassessed taxes and interest of approximately \$47.0 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of \$20.2 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in respect of its tax filings in respect of the 2018 taxation years, on the same basis. The carrying values of the remaining ITC's of \$2.7 million at December 31, 2018 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings.

Certain information contained herein may be considered to be future oriented financial information or financial outlook under applicable securities laws, including statements regarding expected revenues (annually and quarterly), the Run Rate Payout Ratio and anticipated expenses. 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 Statement" below.

Risk Factors

An investment in our securities involves a number of risks. The risks and uncertainties described below are all of the risks that we know about and that we have deemed to be material to our business or results of our operations. When reviewing forward-looking statements and other information contained in this MD&A, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect our future results. We operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for Management to predict all risk factors or the impact of such factors on our business. We assume no obligation to update or revise our risk factors or other information contained in this MD&A to reflect new events or circumstances, except as may be required by law.

We have organized our risks into the following categories:

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

STRATEGIC RISK FACTORS RELATING TO OUR BUSINESS

We depend upon the operations, assets and financial health of our Private Company Partners

We are entirely dependent on the operations, assets and financial health of our Private Company Partners through our agreements with them. Our ability to pay dividends, to satisfy our debt service obligations and to pay our operating expenses is dependent on the Distributions received from our Private Company Partners, our sole source of cash flow. Adjustments of Distributions to Alaris from our Private Company Partners are generally based on the percentage change of the Private Company Partner's revenues, same-store sales, gross margin or other similar top-line measure. Accordingly, subject to certain conditions, to the extent that the financial performance of a Private Company Partner declines with respect to the relevant performance measure, cash payments to Alaris will decline. The failure of any material Private Company Partner or collectively a number of non-material Private Company Partners to fulfill its distribution obligations to Alaris could materially adversely affect our financial condition and cash flows. We conduct due diligence on each of our Private Company Partners and the industries they operate in prior to entering into our agreements with them. In addition, we continue to have regular discussions with our Private Company Partners, we receive regular financial and other reports from them and we continue to monitor changes in the industries in which they operate. However, there is a risk that there may be liabilities or other matters that are not identified by us through our due diligence or ongoing communications and monitoring procedures, which may have a material adverse effect on the Private Company Partners and the applicable performance measure.

Our agreements with our Private Company Partners provide us with certain remedies in the event of non-payment of Distributions by the applicable Private Company Partner. In addition, some of our arrangements are secured by the assets of the Private Company Partner (for example, Federal Resources) or are guaranteed by an affiliated entity (for example, GWM). However, our rights to payment, our remedies, and our security interests are generally subordinated to the payment rights and security interests of a Private Company Partner's senior lenders and could be impacted by rights of certain unsecured creditors. Specifically, our agreements with a Private Company Partner may include a standstill provision limiting our ability to exercise certain remedies until the senior debt is paid or for a specified period of time.

We have numerous positive and negative covenants in place with our Private Company Partners designed to protect our Distributions and typically our prior consent is required for items outside of the ordinary course of business; however, we generally do not have significant voting rights in our Private Company Partners and accordingly our ability to exercise direct control or influence over the operations of our Private Company Partners (except with respect to our consent rights and in circumstances where there has been an uncured event of default and Distribution payments to Alaris have not been made as required) may be limited. The Distributions received by us from the Private Company Partners therefore depend upon a number of factors that may be outside of our control.

There is generally no publicly available information, including audited or other financial information, about our Private Company Partners and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to Canadian public companies. Therefore, we rely on our Management and third party service providers to investigate these businesses. There can be no assurance that our due diligence efforts or ongoing monitoring procedures will uncover all material information about the privately held businesses necessary to make fully informed decisions. In addition, our due diligence and monitoring

procedures will not necessarily ensure that an investment will be successful. Private Company Partners may have significant variations in operating results; may from time to time be parties to litigation; may be engaged in rapidly changing businesses; may expand business operations to new jurisdictions or business lines; may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; or may be adversely affected by changes in their business cycle or changes in the industries in which they operate.

Numerous factors may affect the quantum of a Private Company Partner's Distribution to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including, without limitation: the failure to meet its business plan; regulatory or other changes affecting its industry; integration issues with respect to acquisitions, new locations or new business lines; a downturn in its industry; negative labour trends in a Private Company Partners industry or the economy as a whole; negative economic conditions; changes in legislation or regulations governing a business or industry; disruptions in the supply chain; disputes with suppliers, customers, or service providers or changes in arrangements therewith; and working capital and/or cash flow management issues. Deterioration in a Private Company Partner's financial condition and prospects may be accompanied by a material reduction in the distributions or payments received by Alaris. See "Risk Factors Relating to our Private Company Partners".

We are subject to risks affecting any new Private Company Partners

If Alaris is successful in partnering with one or more new Private Company Partners, the businesses of these Private Company Partners may be subject to one or more of the risks referred to under "Risk Factors Relating to our Private Company Partners" or similar risks and may be subject to other risks particular to such business or businesses. A material change in a Private Company Partner's business and/or their ability to pay the Distribution payable to us could have an adverse effect on our business.

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

A key element of our growth plan is adding new Private Company Partners and making additional investments in existing Private Company Partners in the future. Our ability to identify and complete new investment opportunities is not guaranteed. Achieving the benefits of future investments will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of Distributions. From time to time, Alaris has been required to grant certain concessions to certain of its Private Company Partners to assist them in managing their debt covenants, working capital or for other reasons. Such concessions may result in a temporary or permanent reduction in our Distributions from such Private Company Partner, which may negatively affect our operations, financial condition or cash flows. There are also no guarantees that the perceived benefits of such concessions will, in fact, exist.

We have limited diversification in our Private Company Partners

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

Our business and the business of each of the Private Company Partners are subject to changes in North American and international economic conditions, including but not limited to, recessionary or inflationary trends, capital market volatility, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, international trade disputes and tariffs, corporate taxation and overall consumer confidence. As has been experienced over the last decade, market events and conditions, including disruptions in the international credit markets and other financial systems, may result in a deterioration of global economic conditions. These conditions could cause a decrease in confidence in the broader North American and global credit and financial markets and create a climate of greater volatility, less liquidity, widening of credit spreads, a lack of price transparency, increased credit losses and tighter credit conditions. Notwithstanding various actions by governments, from time to time there may be concerns about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions. These factors could negatively impact company valuations and impact the performance of the global economy. A return of any these negative economic events could have a material adverse effect on our Company and our Private Company Partners' business, financial condition, results of operations and cash flows.

In addition, economic conditions in North America and globally may be affected by geopolitical events throughout the world that cause disruptions in the financial markets, either directly or indirectly. In particular, conflicts, or conversely peaceful developments, arising in the Middle-East, Asia, or Eastern Europe and other areas of the world that have a significant impact on the price of important commodities can have a significant impact on financial markets and global economy. Any such negative impacts could have a material adverse effect on our Company and our Private Company Partners' business, financial condition, results of operations and cash flows.

Our ability to manage future growth and carry out our business plans may have an adverse effect on our business and our reputation

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

We face competition with other investment entities

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

OPERATIONAL AND FINANCIAL RISK FACTORS RELATING TO OUR BUSINESS***We are subject to tax related risks****CRA Re-Assessment*

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately \$121 million of non-capital losses and utilization of \$7.9 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately \$47.7 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of \$20.2 million in deposits to the CRA relating to the Reassessments to date, including \$3.0 million deposited in 2017 \$0.9 million deposited in 2018. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings in respect of the 2018 taxation year, on the same basis. The carrying values of the remaining ITC's of \$2.8 million at December 31, 2018 and the ITC's claimed in 2018 of \$0.2 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings.

International Structure

Alaris has established Alaris Coop, Alaris USA, and Salaris USA for the purpose of financing and entering into arrangements with potential Private Company Partners in the United States and other jurisdictions on a tax efficient basis. Our corporate structure for this purpose was implemented having regard to the complex corporate and tax laws and regulations of Canada, The Netherlands and the United States, as well as the income tax conventions between those countries to date, and our understanding of the current administrative practices and policies of the taxation authorities of each such jurisdiction, as well as the structure of our Private Company Partners. Such laws, regulations and conventions are subject to change from time to time. There is a possibility that such a change may be made, including with retroactive or retrospective effect. In 2018, the U.S. Treasury and the Internal Revenue Service issued proposed regulations relating to the 2017 Tax Cuts and Jobs Act, which provided administrative guidance and clarified certain aspects of the new laws. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur in 2019. The Corporation continues to review, analyze and assess the impact these new proposed regulations could have on the Company as the impact could be material.

In addition, such structure is subject to assessment and possible adjustment by any of the taxation authorities of such jurisdictions based on differences of interpretation of the applicable tax laws and the manner in which such laws have been implemented. Furthermore, certain changes in the structure and business practices of our Private Company Partners could impact our structure. Although we are of the view that the corporate structure has been implemented correctly and is being managed and monitored properly, there can be no assurance that the tax authorities of such jurisdictions will agree. If such tax authorities successfully challenge any aspect of our financing and corporate structure, or if for business reasons we are not able to implement our structure fully, our operating results could be adversely affected.

International Tax Audit

In early January 2017, the CRA began an international tax audit of Alaris with respect to its 2013, 2014 and 2015 taxation years and in December 2017, the CRA issued a letter proposing adjustments relating to intercompany services provided by Alaris to its foreign subsidiaries. If unsuccessfully defended, the audit would likely result in a onetime payment of an amount that is immaterial to the Corporation. Alaris strongly disagrees with the CRA's assessment and intends to vigorously defend its tax filing position. The two parties continue to work through this matter.

General

Income tax provisions, including current and deferred income tax assets and liabilities, and income tax filing positions require estimates and interpretations of federal and provincial income tax rules and regulations, and judgments as to their interpretation and application to Alaris' specific situation. The business and operations of Alaris are complex and we have executed a number of significant financings and transactions over the course of our history. The computation of income taxes payable as a result of these transactions involves many complex factors as well as Alaris' interpretation of and compliance with relevant tax legislation and regulations.

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

Each Private Company Partner provides certain representations and warranties and covenants to us regarding the Private Company Partner and its business and certain other matters. Following a transaction with Alaris, the Private Company Partner may distribute all or a substantial portion of the proceeds that it receives from us to its security holders or owners. In the event that we suffer any loss as a result of a breach of the representations and warranties or non-compliance with any other terms of an agreement with a Private Company Partner, we may not be able to recover the amount of our entire loss from the Private Company Partner. The Private Company Partner may not have sufficient property to satisfy our loss. In addition, our rights and remedies in the event of a default are generally subordinated to a Private Company Partners senior lenders, which can limit our ability to recover any losses from Private Company Partners. Furthermore, a Private Company Partner may try to contest the application of our remedies, which could delay the operation (or if a partner is successful deny the operation) of our rights and remedies and add additional costs to Alaris.

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

Certain features of our outstanding debt, including the renewal of such debt on substantially similar terms, and the nature of any outstanding debt of the Private Company Partners could adversely affect our ability to raise additional capital, to fund our operations, to pay dividends, and could limit our ability to react to changes in the economy and our industry, expose us to interest rate risks and could prevent us from meeting certain of our business objectives. An inability to meet our debt covenants could result in a default under our senior credit facility, which may then require repayment of any outstanding amounts at a time when Alaris may not have sufficient cash available to make such repayment. In addition, a default under our debt facility may impact our ability to obtain future debt

financing on terms favorable to Alaris. Furthermore, an inability of any material Private Company Partner (or a group of non-material Partners collectively representing a material portion of our revenues) to meet their debt covenants and a failure of a Private Company Partner to refinance or restructure its debt where necessary can have an impact on their ability to pay our Distributions and therefore impact Alaris' cash flows. In addition, where a Private Company Partner has defaulted under our agreements, our right to exercise our remedies may be subordinate to the Partner's senior lender and subject to a standstill provision until the senior debt is repaid or for a specified period of time.

Alaris and our Partners are subject to significant regulation

Alaris, its subsidiaries, and the Private Company Partners are subject to a variety of laws, regulations, and guidelines in the jurisdictions in which they operate (including Dutch, U.S. federal, state and local laws, and Canadian federal, provincial and local laws) and may become subject to additional laws, regulations and guidelines in the future, particularly as a result of acquisitions or additional changes to the jurisdictions in which they operate. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on Alaris' and the Private Company Partners' business, resources, financial condition, results of operations and cash flows. The same goes for any failure to maintain compliance or obtain any required approvals. Such laws and regulations are subject to change. Accordingly, it is impossible for Alaris or the Private Company Partners to predict the cost or impact of changes to such laws and regulations on their respective future operations.

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

The amount of dividends paid by us will depend upon numerous factors, including Distributions received, profitability, debt covenants and obligations, foreign exchange rate, the availability and cost of acquisitions, fluctuations in working capital, the timing and amount of capital expenditures, applicable law and other factors which may be beyond our control. Dividends are not guaranteed and will fluctuate with our performance and the performance of our Private Company Partners. There can be no assurance as to the levels of dividends to be paid by us, if any. The market value of the Common Shares may deteriorate if we are unable to pay dividends in accordance with our dividend policy in the future, or not at all, and such deterioration may be material.

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

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

The payout by Alaris of substantially all of our operating cash may make additional investment capital and operating expenditures dependent on increased cash flow or additional financings in the future. Alaris may require equity or debt financing in order to acquire interests in new Private Company Partners or make additional contributions to our current Private Company Partners. Although we have been successful in obtaining such financing as and when required to date, there can be no assurance that such financing will be available when required or will be on commercially favourable terms. A lack of availability or commercially favourable terms could limit our growth. The ability of Alaris to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as our business performance.

Our ability to pay dividends is affected by the terms of our Senior Credit Facility

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

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

We are subject to fluctuations in the US/Canadian dollar pairing (USD/CAD)

At this point in time, the majority of our Distributions are paid to us in United States dollars. However, our dividends are paid to our Shareholders in Canadian dollars. Currently, we have in place currency hedges to manage the risk and economic consequences of foreign currency exchange fluctuations on our monthly cash flows as well as natural hedges such as carrying US dollar denominated debt. However, the Canadian dollar relative to the United States dollar is subject to fluctuations and the currency hedges are for a limited period of time. There can be no guarantee that future hedges will be at rates of USD/CAD that fully protect Alaris' cash flows against major fluctuations. As such, failure to adequately manage our foreign exchange risk could adversely affect our business, financial condition and results of operation. In general, where we continue to have a majority of our investments in the U.S., a declining Canadian dollar versus the U.S. dollar is a net benefit to Alaris' monthly cash flows and to the principal value of its investments.

Also, certain of our currency hedges are conducted by way of a forward contract, which come with an obligation to fulfill the contract at a future date. If Alaris did not have adequate USD to sell under the forward contract it would have to pay the difference between the contract price and the current spot price. If the current spot price is in Alaris' favor it could receive a cash benefit from not being able to fulfill its forward contract. However, if the spot to forward price differential is not in Alaris' favor, it could owe a substantial amount of money to the holder of the contract. A significant loss of USD revenue could cause Alaris to fail to meet its obligations under the forward contracts. This could result from a significant decrease in a Partners business, which resulted in a significant decrease in its Distribution to Alaris or if Alaris was repurchased by a material U.S. partner or several US Partners within that time period. Any cash outlay to meet a forward contract obligation could negatively affect Alaris' cash flows.

Alaris has investments in a number of U.S. based businesses, and will continue to invest in U.S. based businesses, in U.S. denominated currency. Alaris' credit facility allows for USD denominated draws to fund U.S. based businesses. This will act as a natural hedge on cash flows and future repurchases by Private Company Partners. However, Alaris may from time to time purchase U.S. dollars in the spot market based on the USD/CAD rate of exchange at the time of investment to make U.S. based investments. If Alaris is redeemed on a U.S. dollar based investment it may incur a loss in the Canadian dollar equivalent if the USD/CAD spot rate is lower at the time of the redemption than it was when the original investment was made. Alaris does not hedge the fair value of its U.S. dollar denominated investments due to the fact that there is no expectation to be redeemed or to exit these investments and therefore there is an uncertain time horizon of such exit events. This exposes Alaris to a cash loss, or gain, on a US dollar investment, even if the investment was successful in its U.S. based currency. Alaris adjusts the fair value of its U.S. dollar denominated investments based on the USD/CAD rate on the balance sheet date for each quarter and records an unrealized gain or loss to account for the fluctuations in the exchange rate.

Our Private Company Partners have termination rights which may be exercised

Each of our Private Company Partners has the right to terminate their agreement with Alaris through a repurchase or redemption right that arises after a fixed period of time following the closing of our arrangement with the applicable Private Company Partner or upon an exit event of a Private Company Partner. Although Management believes that the repurchase or redemption purchase price would adequately compensate Alaris for the foregone payments, we would be required to reinvest the cash received including possibly investing in our own shares through the repurchase and cancellation of our shares, in order to maintain our dividend levels. There is no assurance that we would be able to successfully identify and complete any such alternative investments or complete any such share repurchase.

We and our Private Company Partners rely heavily on key personnel

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

Our share price is unpredictable and can be volatile

A publicly traded corporation will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Common Shares will trade cannot be predicted. The market price of the Common Shares could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements we make, general economic conditions, unexpected volatility in Global stock markets and other factors beyond our control.

We may issue additional Common Shares diluting existing Shareholders' interests

We may issue an unlimited number of Common Shares or other securities for such consideration and on such terms and conditions as shall be established by us without the approval of Shareholders. Any further issuance of Common Shares will dilute the interests of existing Shareholders, if the proceeds of such issuances are not being used in a manner that is accretive to Alaris' net cash from operating activities per share. The Shareholders will have no pre-emptive rights in connection with such future issuances.

We are subject to a risk of legal proceedings

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

We are not, and do not intend to become, registered as an Investment Company under the U.S. Investment Company Act and related rules

We have not been and do not intend to become registered as an investment company under the U.S. Investment Company Act and related rules in reliance on the exemption from such registration provided by Section 3(c)(7) of that Act. The U.S. Investment Company Act and related rules provide certain protections to investors and impose certain restrictions on companies that are registered with the U.S. Securities and Exchange Commission (the "SEC") as investment companies. None of these protections or restrictions is or will be available to investors in Alaris. In addition, to comply with the Section 3(c)(7) exemption from registration and avoid being required to register as an investment company under the U.S. Investment Company Act and related rules, we have implemented restrictions on the ownership and transfer of the Common Shares, which may materially affect your ability to hold or transfer the Common Shares. Additionally, if we were required to register with the SEC as an investment company, compliance with the U.S. Investment Company Act would significantly and adversely affect our ability to conduct our business.

Potential investors' ability to invest in Common Shares or to transfer any Common Shares that investors hold may be limited by certain ERISA, U.S. Tax Code and other considerations

Alaris has restricted the ownership and holding of Common Shares so that none of our assets will constitute "plan assets" (as defined in Section 3(42) of ERISA and applicable regulations) of any of the following: (1) an "employee benefit plan" (within the meaning of Section 3(3) of ERISA that is subject to Part 4 of Subtitle B of Title I of ERISA, (2) a plan, individual retirement account or other arrangement that is subject to Section 4975 of the U.S. Tax Code, (3) any other retirement or benefit plan that is not described in (1) or (2), but that is subject any similar law, or (4) an entity whose underlying assets are considered to include "plan assets" of any such plan, account or arrangement in (1) - (3) pursuant to ERISA, the U.S. Tax Code or similar law.

If the Company's assets were considered to constitute "plan assets" of any of the foregoing entities, non-exempt "prohibited transactions" under Section 406 of ERISA, Section 4975 of the U.S. Tax Code or similar law could arise from transactions the Company enters into in the ordinary course of business, resulting in tax penalties and mandatory rescission of such transactions. Consequently, each recipient and subsequent transferee of common shares will, or will be deemed to, represent and warrant that it is not an entity described in (1)-(4) in the preceding paragraph and that no portion of the assets used to acquire or hold its interest in common shares or any beneficial interest therein constitutes or will constitute the assets of such an entity. Any holding or transfer of common shares in violation of such representation will be void. See "Ownership and Transfer Restrictions".

Foreign Account Tax Compliance Act ("FACTA") Provisions

In general, FATCA imposes due diligence, reporting and withholding obligations on foreign (i.e., non-U.S.) financial institutions and certain foreign (i.e., non-U.S.) non-financial entities. A failure by such an institution or entity to comply with these obligations could subject it to a 30% U.S. withholding tax ("FATCA Tax") on certain its U.S. source income (including interest, dividends, rents, royalties, compensation and other passive income and, beginning in 2019 gross proceeds from the sale or other disposition of property that can produce such type of U.S. source income) and thereby reduce its distributable cash and net asset value. Canada and the United States entered into an Intergovernmental Agreement (the "IGA") on February 5, 2014, which came into force on June 27, 2014, to facilitate compliance with FATCA by Canadian financial and non-financial institutions and entities.

Under the IGA and the Canadian legislation enacted to implement the IGA (the "Canada IGA Legislation"), Alaris (and its subsidiaries) (i) registered with the IRS and acquired identifying numbers, (ii) performed, and will continue to perform, specified diligence to determine whether they have any "U.S. reportable accounts" and (iii) will on an annual basis, report to the CRA, as required or applicable, information about our U.S. "account holders", which could include certain of Alaris' shareholders. Also, under the Canada IGA Legislation, a shareholder of Alaris may be required to provide identity, residency and other information to Alaris (and may be subject to penalties for failing to do so) that, in the case of certain U.S. persons

or certain non-U.S. entities controlled by certain U.S. persons, Alaris would then report to the CRA and which the CRA would then report to the IRS. The CRA has reported, and will report, such information about U.S. reportable accounts and such U.S. persons and non-U.S. entities to the IRS pursuant to the exchange-of-information provisions in the Canada-U.S. tax treaty.

Nevertheless, under the Canada IGA Legislation, equity and debt interests that are regularly traded on an established securities market are not treated as "financial accounts". If the Common Shares are regularly traded on an established securities market, Alaris will not be required to provide information to the CRA about U.S. holders of Common Shares. The Common Shares are regularly traded on an established securities market and as such, Alaris does not expect to report information about US holders of its Common Shares to the CRA under FATCA. However, should the Common Shares no longer be considered to be regularly traded on an established securities market, Alaris' reporting obligations under FATCA may change.

Alaris and its subsidiaries intend to continue to take such measures and implement such procedures as it, in consultation with its legal and tax counsel, determines to be necessary or desirable to comply with its obligations under the IGA and, more particularly, the Canada IGA Legislation. If Alaris or a subsidiary of Alaris cannot (or otherwise does not) satisfy the applicable requirements of the IGA and the Canada IGA Legislation or if the Canadian government is not in compliance with the IGA and if Alaris is otherwise unable to comply with any relevant and applicable legislation, then Alaris (or a subsidiary of Alaris) could be subject to the FATCA Tax and thereby reduce the distributable cash and net asset value of Alaris.

The foregoing discussion is based on the U.S. Internal Revenue Code, guidance issued by the IRS and the United States Treasury Department, including regulations and IRS notices, and the IGA and the Canada IGA Legislation (and the interpretations thereof and the guidance issued by the CRA). Future guidance, including explanations of and rulings interpreting current authorities, may affect the application of FATCA to Alaris in a manner that is unfavorable to Alaris and holders of Common Shares.

Passive Foreign Investment Company ("PFIC") Rules and Potential Implications for U.S. Shareholders

Sections 1291 through 1298 of the United States Internal Revenue Code (the "Code") provide for special (and generally unfavorable for U.S. shareholders) rules applicable to non-U.S. corporations that constitute PFICs. A non-U.S. corporation will constitute a PFIC for any taxable year in which either (1) at least 75% of its gross income for such taxable year is passive income (which would include, among other things and subject to certain exceptions, dividends, interest, royalties, rents, annuities and other income of a kind that would be "foreign personal holding company income", as defined in Section 954(c) of the Code), or (2) the average percentage of assets, by value (determined on the basis of a quarterly average), held by it during such taxable year which produce passive income or which are held for the production of passive income is at least 50%. For this purpose, the non-U.S. corporation will be considered as receiving directly its proportionate share of the income, and as holding its proportionate share of the assets, of any corporation (whether U.S. or non-U.S.) at least 25% (by value) of the stock of which the non-U.S. corporation owns directly or indirectly.

For any taxable year in which a non-U.S. corporation is a PFIC, and in the absence of an election by a U.S. shareholder of such non-U.S. corporation to either treat such non-U.S. corporation as a "qualified electing fund" (such election, a "QEF Election") or "mark-to-market" his or her shares of such non-U.S. corporation (such election, an "MTM Election"), such U.S. shareholder will, upon the making of certain "excess distributions" by such non-U.S. corporation or upon the U.S. shareholder's disposition of his or her shares of such non-U.S. corporation at a gain, be subject to U.S. federal income tax at the highest tax rate on ordinary income in effect for each year to which the income is allocated plus an interest charge on the deemed tax deferral, as if the distribution or gain had been recognized ratably over each day in the U.S. shareholder's holding period for his or her shares in such non-U.S. corporation while such corporation was a PFIC.

Based upon its (and its subsidiaries') income and assets in prior tax years, Alaris has taken the position that neither it nor any of its subsidiaries were PFICs for any of its prior taxable years. Furthermore, based on its current and projected operations and financial expectations for the current taxable year, Alaris believes that neither it nor any of its subsidiaries will be a PFIC for the current taxable year. However, the determination of whether Alaris or any of its subsidiaries was (for any prior taxable year) or will be or become (for the current or any future taxable year) a PFIC was and is fundamentally fact-specific in nature and dependent on: (a) the income and assets of Alaris and its subsidiaries over the course of any such taxable year; and (b) the application of complex U.S. federal income tax rules, which are subject to differing interpretations. Consequently, Alaris cannot provide any assurance that: (i) neither it nor any of its subsidiaries was (for any prior taxable year) or will be or become (for the current or any future taxable year) a PFIC; or (ii) that the IRS would not take the position that either Alaris and/or any one or more of its subsidiaries should have been or should be treated as a PFIC for any one or more taxable years despite a contrary reporting position of Alaris or the applicable subsidiary.

If Alaris were to be or become a PFIC for the current or any future taxable year, Alaris does not intend to make available to U.S. shareholders the financial information necessary to make a QEF Election; however, provided the Common Shares were to constitute "marketable stock" (as specifically defined under the MTM Election regulations), a U.S. shareholder should be able to make an MTM Election with respect to his or her Common Shares. Alaris believes that the Common Shares would currently be considered "marketable stock" for this purpose. The making of an MTM Election would result in the electing U.S. shareholder of Common Shares having to recognize as ordinary income or loss each year an amount equal to the

difference as of the close of such year (or the actual disposition of the Common Shares) between the fair market value of the Common Shares and the shareholder's adjusted U.S. federal income tax basis in such shares. Losses would be allowed only to the extent of the net mark-to-market gain previously included in income by the U.S. shareholder under the MTM Election for prior taxable years. If an MTM Election is made, then distributions from Alaris with respect to the Common Shares would be treated as if Alaris were not a PFIC, except that the lower tax rate currently imposed on dividends to individuals would not apply.

Alaris urges U.S. shareholders to consult their own tax advisors regarding the possible application of the PFIC rules.

RISKS RELATING TO OUR MATERIAL PRIVATE COMPANY PARTNERS

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

Risks Relating Specifically to SBI

<i>A loss of a key revenue generating principal in the business</i>	If SBI were to lose a key member of its revenue generating team to attrition or other reasons there could be a short-term impact on revenue and cash flows. Although key account relationships are held at the company level, losing a top producing principal may result in the loss of future business with companies that a principal may have had in its sales pipeline.
<i>An inability to attract the skilled workforce SBI relies on</i>	SBI must retain and be able to attract the highly skilled workforce it requires to meet the demand of its clients. Management has indicated it has not had and does not expect to have an issue attracting top talent due to its corporate culture and compensation packages. However, an inability to continue to attract high quality employees could impact the business in the short and long-term.
<i>Contracts are short-term in nature</i>	Although some client revenues are reoccurring in nature, the contracts SBI has with clients tend to be short-term (project based) and therefore make long-term planning a bit more difficult. Forecasting the business outside of a 3 to 6 month window is relatively tough and based on historic lead generation and conversation rates. A failure to convert new leads into actionable mandates can have a negative impact on SBI's revenue and cash flow following the completion of existing contracted business. Although SBI tends to differentiate itself from its competitors on processes and procedures rather than price, it does also have to compete on price. If SBI cannot be competitive when bidding on new contracts it may not be able to replace business that is running off.
<i>Exposed to the M&A market in the United States</i>	SBI generates a large portion of its revenue by working for private equity clients with purchase mandates. Although all indicators are pointing to continued momentum in the private equity space, if the level of private equity activity slows down from current record levels SBI may face a decrease in revenues and cash flow.
<i>Highly fragmented industry with low costs to enter</i>	The industry in which SBI competes in is highly fragmented with many small to medium sized businesses as well as a few large well capitalized competitors. The cost to enter this industry is relatively low and therefore the barriers to entry are minimal. Although the cost to enter the industry are low, new entrants to the market must also be able to prove their processes and procedures lead to a successful outcome for its client and therefore new entrants can take a while to gain significant market share. Entry of new competitors or discount pricing strategies by a few large competitors could impact the revenues and margins of SBI's business and lead to lower cash flow.
<i>Needs sufficient cash flow to incentivise principals for performance</i>	The compensation structure of SBI is such that a significant portion of a principal's income comes by way of partner distributions at year end. In order to incentivize minority owner partners as well as principals, SBI needs to have enough cash to pay out meaningful partner distributions on an annual basis going forward.

Risks Relating Specifically to DNT

<i>Exposure to residential development</i>	In the current economic cycle, DNT chooses to have a higher percentage of its revenue generated from new residential development projects than commercial or infrastructure projects. Although it is DNT's strategy to focus more of its efforts on the segment of the market with the most current and projected growth, it exposes DNT to a downturn in the new home development segment of the economy, which can have a material impact on its cash flows. In times of economic downturns DNT can shift its focus to commercial and infrastructure projects. However, failing to do so in a timely manner to offset lost revenue from the residential segment, or at all, can have a significant impact on DNT's cash flow.
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<i>Geographic exposure to Austin and San Antonio</i>	DNT focuses primarily on the Austin and San Antonio regions of the state of Texas. Although these two regions have robust economies, which are diversified among healthcare, technology and education, they are close enough in proximity to be impacted by the same economic and weather related factors. This lack of geographic diversification exposes DNT to more concentrated events than it would otherwise be if it were to be diversified across many regions of the United States.
<i>Bonding requirements</i>	DNT requires bonding on a significant number of its projects. This requires DNT to maintain a healthy balance sheet or face the risk of not being able to bid on certain new projects. Any lack of ability to bond new projects could have a significant impact on DNT's cash flows.
<i>Seasonality including weather related events</i>	Unusual amounts of rain can impact the business significantly as it prevents DNT from providing its services and in many instances can increase costs for things such as water remediation. The unusual wet weather can also cause "work overs" which can erode margins on certain projects and may also cause margins to erode when the work is eventually restarted as it may require overtime hours to complete the work on schedule.
<i>Fixed price contracts</i>	As costs are established on estimates for fixed price contracts, DNT bears the risk for cost overruns. Generally it manages the risk with vigorous pre-bid analysis and through hedging of its materials and fuel costs. However, errors in estimating and unforeseen weather events can cause both labour and materials costs overruns.
<i>Customer concentration</i>	DNT generates a large portion of its revenues from a handful of customers. If DNT fails to win new tenders with these customers or if the customers face financial trouble, which results in the delay or cancelation of new projects, DNT's revenue and cash flows can be negatively impacted until the revenue can be replaced through other sources.
<i>Labour</i>	DNT is a labour intensive business. Its employee base is comprised of management level professionals, skilled operators of heavy equipment and general labourers. The labour market in Texas is highly competitive and availability of both general labourers and skilled operators is low across the industry. A tight labour market can cause wage rates to rise rapidly and cause temporarily margin compression on jobs previously bid with lower wage rates. DNT can adapt to wage rate increases in future bids but will deal with any wage increases through lower margin on current jobs. If DNT is not able to hire and retain a qualified labour force it could also lead to a delay in finishing current jobs as well as an inability to win new work. Failure to complete certain jobs on time can lead to financial penalties incurred by DNT and failure to competitively bid on new jobs can lead to a decrease in future company revenues.

Risks Relating Specifically to Federal Resources

<i>Complex procurement rules and regulations on U.S. government contracts</i>	Federal Resources derives a majority of its revenue from contracts with the U.S. government, as well as other State level and municipal contracts. U.S. government contracts have complex procurement rules and certain regulations. A failure to abide by these rules/regulations can result in penalties such as termination of certain contracts, disqualification from bidding on future contracts and suspension or permanent removal from bidding on U.S. government contracts.
<i>Subject to reviews, audits and costs adjustments by the U.S. government</i>	If a review, audit or cost adjustment conducted by the U.S. government results in an outcome negative to Federal Resources, it could adversely affect their profitability, cash flow or growth prospects.
<i>Contracts can be cancelled at anytime</i>	The U.S. government can cancel contracts at any time through a termination of convenience provision, provided that they cover Federal Resources for costs incurred. Although cost coverage would result in Federal Resources not incurring a loss on the inventory it purchased, it will not make a profit on the sale and will need to find a substantial new customer or customers and sell the product over a prolonged period of time in order to eventually realize a profit on the inventory.
<i>Competition is intense</i>	Federal Resources competes with a number of large established multinational companies. This results in competitive pricing and low profit margins. Successfully winning contracts in a competitive environment can result in losses on certain contracts if certain variables change given the low profit margins Federal Resources operates with.

Seasonality/variability of revenue

Due to the timing of government's budget cycles, the majority of Federal Resources sales can come within a certain time of the year. This requires Federal Resources to manage its cash flows for operations, debt payments and distribution payments to Alaris for the remaining months of a given year out of the cash generated from prior sales. Failure to properly manage cash flow from seasonal sales could negatively impact Federal Resources cash flow.

Working capital requirements at certain times of the year can be significant

Due to the amount of inventory Federal Resources has to carry to satisfy certain contracts at certain times of the year, it can result in significant requirements for working capital to fund operations. If Federal Resources fails to have sufficient working capital to support periodic needs it could negatively impact the cash flows of the business and thus payment of Distributions to Alaris.

A decline in U.S. government defense budgets can impact FRS

Given that Federal Resources generates a majority of its revenue from U.S. government defense contracts it could be negatively impacted by a general decrease in defense budget spending in a given year.

RISKS RELATING TO ALL OF OUR PRIVATE COMPANY PARTNERS, GENERALLY

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

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

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

Our Private Company Partners rely on key personnel

Often, the success of a private business depends on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on a Private Company Partner's operations or ability to access additional capital, qualified personnel, expand or compete. See also, "Risk Factors – Operational and Financial Risk Factors Relating to our Business" as well as "We and our Private Company Partners rely heavily on key personnel".

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

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

Failure to Realize Anticipated Benefits of Acquisitions, New Business Lines or Locations

The business model for a number of our Private Company Partners includes an acquisition strategy involving the acquisition of businesses and assets or growth through expanding to new locations. In addition, a Private Company Partner's business could launch a new business line or service offering. Achieving the benefits of acquisitions, new business lines, new locations and other transactions depends on, among other things, successfully consolidating functions and integrating operations and procedures in a timely and efficient manner, allocating appropriate resources, including management time, and a Private Company Partner's ability to realize the anticipated growth opportunities and synergies from combining the acquired businesses, assets and operations with those of their own. The integration of acquired businesses, new business lines or locations may require substantial management effort, time and resources diverting management's focus from other strategic opportunities and operational matters. A failure to realize on the anticipated benefits of such acquisitions, new business lines or locations could have a material adverse impact on a Private Company Partner's operations and therefore on our operations.

Our Private Company Partners may suffer damage to their brand reputations

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

Our Private Company Partners face intense competition

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

Additional franchise operations may be limited

PFGP is a franchisee of Planet Fitness. As such, PFGP's operations depend, in part, on decisions made by the Planet Fitness franchisor, including decisions relating to pricing, advertising, policy and procedures as well as approvals required for acquisitions and territory expansion. Business decisions made by the franchisor could impact PFGP's operating performance and profitability. In addition, PFGP must comply with the terms of its franchise agreements with the franchisor and its applicable land development agreements. A failure to comply with such obligations or a failure to obtain renewals on any expiring franchise agreements could adversely affect PFGP's operations.

Changes in the industry in which the Private Company Partners operate

Our Partners operate in a number of different industries, some of which are heavily regulated. A change in the regulatory regime of such industries or a material change in the economic factors specific to any industry in which our Partners operate, could have a material impact on the operations of such Partners and, therefore, could have an adverse impact on their ability to pay Distributions to Alaris.

Risks regarding legal proceedings involving our Private Company Partners

During the course of their operations, our Partners may be subject to or involved in lawsuits, claims, regulatory proceedings, or other litigation matters for amounts not covered by their liability insurance. Some of these proceedings could result in significant costs and restraints on a Partner's operations, which could negatively impact their ability to pay the Distributions to Alaris and, therefore, could have a material impact on our financial performance.

There could be material adjustments to financial information once an annual audit is conducted

Alaris receives unaudited internal financial information from each of its Private Company Partners throughout the year and bases certain estimates on this information including the earnings coverage ratios Alaris discloses throughout the year. Upon conducting an audit of the annual information there could be material adjustments to the financial statements used by us in determining such estimates and therefore Alaris may have to change certain guidance that it had previously given to its shareholders. The adjustments could also impact financial covenants that our Private Company Partners have with their lenders and thus could impact the distribution to Alaris.

Customer Concentration

At times, some of Alaris' Partners may have concentration to a single customer or a handful of customers that make up a large portion of their revenues. If there is a loss of one or some of these customers there could be a material impact on a Partner's business and its cash flows, which could have a material impact on the Partner's ability to pay Distributions.

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 2019, the Earnings Coverage Ratio for the Partners and the Corporation's Run Rate Payout Ratio; the revenues and distributions to be received by Alaris in 2019 (on an annual and quarterly basis); the Corporation's general and administrative expenses and cash requirements in 2019; the CRA proceedings (including the expected timing and financial impact thereof); annualized net cash from operating activities; the impact of expected operational improvements and future investments for the Corporation; interest and tax expenses; dividends to be paid; changes in Distributions from Partners; the proposed resolutions to outstanding issues with certain Partners; the restart of Distributions from any partners not currently paying a Distribution or increasing the level of Distribution where a Partner is paying less than the full contracted amount; the timing for collection of deferred or unpaid Distributions; impact of new capital deployment; 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 revenue, distributions and expenses, Run Rate Payout Ratio, dividends to be paid, the impact of capital deployment and changes in distributions from Partners, they were approved by management as of the date hereof and have been included to assist readers in understanding management's current expectations regarding Alaris' financial performance and are subject to the same risks and assumptions disclosed herein. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward looking information contained in this MD&A. Statements containing forward looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The forward looking information contained herein are based on certain assumptions, including assumptions regarding the performance of the Canadian and U.S. economies over the next 24 months and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners; the continuing ability of the business of the Partners to pay the distributions; the performance of the Private Company Partners; that 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; inability to close new partner contributions in a timely fashion on anticipated terms or at all; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate (by way of a redemption) the various agreements with Alaris or a material portion of Alaris investment; unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; liquidity of Common Shares; changes in the financial markets; risks associated with the Partners and their respective businesses; a change in the ability of the Partners to continue to pay Distributions to Alaris; a material change in the operations of a Partner or the industries in which they operate; a failure to obtain the benefit of any concessions provided to any Partners; a failure to obtain by the Corporation or the Partners 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, and the Corporation's annual management discussion and analysis for the year ended December 31, 2018 including the information set forth under "Risks and Uncertainty", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

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

Additional Information

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

Consolidated Financial Statements of Alaris Royalty Corp.

Audited financial statements for the years ended
December 31, 2018 and 2017

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

Opinion

We have audited the consolidated financial statements of Alaris Royalty Corp. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

Hereinafter referred to as the "financial statements".

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- and the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled the "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this auditors' report is Ernest Trevor Hammond.



Chartered Professional Accountants
Calgary, Canada
March 5, 2019

Alaris Royalty Corp.

Consolidated statements of financial position

\$ thousands	Note	31-Dec 2018	31-Dec 2017
Assets			
Cash and cash equivalents		\$ 22,774	\$ 35,475
Prepayments		2,181	2,407
Foreign exchange contracts		-	1,430
Trade and other receivables	5	923	8,642
Income taxes receivable	9	1,484	-
Investment tax credit receivable	9	2,798	2,957
Promissory notes receivable	5	23,252	15,403
Current Assets		\$ 53,413	\$ 66,314
Promissory notes and other receivables	5	26,959	32,017
Deposits	9	20,206	19,252
Equipment		344	503
Intangible assets		-	6,116
Investments	5	790,175	669,216
Deferred income taxes	9	281	5,449
Non-current assets		\$ 837,966	\$ 732,552
Total Assets		\$ 891,378	\$ 798,867
Liabilities			
Accounts payable and accrued liabilities		\$ 3,670	\$ 1,707
Dividends payable		5,013	4,921
Foreign exchange contracts	4	1,333	-
Income tax payable	9	1,257	588
Current Liabilities		\$ 11,273	\$ 7,217
Deferred income taxes	9	16,137	13,641
Loans and borrowings	7	228,103	173,464
Non-current liabilities		\$ 244,240	\$ 187,105
Total Liabilities		\$ 255,513	\$ 194,322
Equity			
Share capital	6	\$ 621,082	\$ 620,842
Equity reserve	8	14,679	12,058
Fair value reserve	3	-	(17,036)
Translation reserve		32,725	5,767
Retained earnings / (deficit)		(32,621)	(17,087)
Total Equity		\$ 635,865	\$ 604,545
Total Liabilities and Equity		\$ 891,378	\$ 798,867
Commitments	11		
Related Parties	12		
Subsequent events	13		
On behalf of the Board:			
Director (signed) "Jack C. Lee"			
Director (signed) "Mary Ritchie"			

Alaris Royalty Corp.

Consolidated statements of comprehensive income

\$ thousands except per share amounts	Note	Year ended December 31	
		2018	2017
Revenues			
Royalties and distributions	5	\$ 97,970	\$ 86,684
Interest and other	5	2,109	2,389
Total Revenue		\$ 100,079	\$ 89,073
Other income			
Gain on partner redemptions	5	\$ 8,144	\$ 26,575
Increase in investments at fair value	5	11,537	-
Realized gain / (loss) on foreign exchange contracts		(73)	1,370
Total other income	0	19,608	27,945
Salaries and benefits		\$ 5,383	\$ 3,371
Corporate and office		3,411	2,597
Legal and accounting fees		3,333	2,096
Transaction diligence costs	5	3,957	-
Non-cash stock-based compensation	8	2,860	3,379
Bad debt expense & reserve	5	25,974	23,430
Impairment and other charges		-	42,491
Depreciation and amortization		214	268
Total Operating Expenses		45,132	77,632
Earnings before the undernoted		\$ 74,555	\$ 39,387
Finance costs	7	8,858	6,582
Unrealized (gain) / loss on foreign exchange contracts		2,792	(2,144)
Unrealized foreign exchange (gain) / loss		(13,327)	12,793
Earnings before taxes		\$ 76,232	\$ 22,156
Current income tax expense	9	8,723	22,089
Deferred income tax expense / (recovery)	9	6,713	(11,815)
Total income tax expense		15,436	10,274
Earnings		\$ 60,796	\$ 11,882
Other comprehensive income			
Transfer on redemption of investments at fair value		\$ -	\$ (9,062)
Transfer from fair value reserve to impairment and other charges		-	4,250
Net change in investments at fair value	5	-	16,692
Tax effect of items in other comprehensive income		-	(984)
Foreign currency translation differences		26,958	(17,262)
Total comprehensive income		\$ 87,754	\$ 5,516
Earnings per share			
Basic	6	\$ 1.67	\$ 0.33
Fully diluted	6	\$ 1.65	\$ 0.32

Consolidated statement of changes in equity
For the year ended December 31, 2017

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2017		\$ 617,893	\$ 11,628	\$ (27,931)	\$ 23,029	\$ 30,079	\$ 654,698
Earnings for the year		\$ -	\$ -	\$ -	\$ -	\$ 11,882	\$ 11,882
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(9,062)	-	-	(9,062)
Transfer from fair value reserve to impairment and other charges		-	-	4,250	-	-	4,250
Net change in investments at fair value		-	-	16,692	-	-	16,692
Tax effect on items in other comprehensive income		-	-	(984)	-	-	(984)
Foreign currency translation differences		-	-	-	(17,262)	-	(17,262)
Total other comprehensive income / (loss)		-	-	10,895	(17,262)	-	(6,367)
Total comprehensive income / (loss) for the year		\$ -	\$ -	\$ 10,895	\$ (17,262)	\$ 11,882	\$ 5,515
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	\$ -	\$ 3,379	\$ -	\$ -	\$ -	\$ 3,379
Dividends to shareholders	6	-	-	-	-	(59,048)	(59,048)
Options exercised in the period		2,950	(2,950)	-	-	-	-
Total transactions with Shareholders of the Company		2,950	430	-	-	(59,048)	(55,669)
Balance at December 31, 2017		\$ 620,842	\$ 12,058	\$ (17,036)	\$ 5,767	\$ (17,087)	\$ 604,545

Alaris Royalty Corp.
Consolidated statement of changes in equity
For the year ended December 31, 2018

	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2018		\$ 620,842	\$ 12,058	\$ (17,036)	\$ 5,767	\$ (17,087)	\$ 604,545
Earnings for the year		\$ -	\$ -	\$ -	\$ -	\$ 60,796	\$ 60,796
Other comprehensive loss							
Foreign currency translation differences		-	-	-	26,958	-	26,958
Total other comprehensive income / (loss)		-	-	-	26,958	-	26,958
Total comprehensive income / (loss) for the year		\$ -	\$ -	\$ -	\$ 26,958	\$ 60,796	\$ 87,754
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	\$ -	\$ 2,860	\$ -	\$ -	\$ -	\$ 2,860
Dividends to shareholders	6	-	-	-	-	(59,294)	(59,294)
Fair value reserve transferred to opening retained earnings	3	-	-	17,036	-	(17,036)	-
Shares issued pursuant to RSU vesting in the year		240	(240)	-	-	-	-
Total transactions with Shareholders of the Company		240	2,621	17,036	-	(76,330)	\$ (56,433)
Balance at December 31, 2018		\$ 621,082	\$ 14,679	\$ -	\$ 32,725	\$ (32,621)	\$ 635,865

Alaris Royalty Corp.

Consolidated statements of cash flows

\$ thousands	Notes	Year ended December 31	
		2018	2017
Cash flows from operating activities			
Earnings from the year		\$ 60,796	\$ 11,882
Adjustments for:			
Finance costs	7	8,858	6,582
Deferred income tax expense / (recovery)		6,713	(11,815)
Depreciation and amortization		214	268
Bad debt expense & reserve	5	25,974	23,430
Impairment and other charges	5	-	42,491
Gain on partner redemptions	5	(8,144)	(10,535)
Increase in investments at fair value	5	(11,537)	-
Unrealized (gain) / loss on foreign exchange contracts		2,792	(2,144)
Unrealized foreign exchange (gain) / loss		(13,327)	12,793
Transaction diligence costs	5	3,957	-
Non-cash stock-based compensation	8	2,860	3,379
		<u>\$ 79,156</u>	<u>\$ 76,331</u>
Change in:			
- trade and other receivables	5	7,176	(1,693)
- income tax receivable / payable		(815)	319
- prepayments		(313)	227
- accounts payable and accrued liabilities		1,962	(1,350)
		<u>87,167</u>	<u>73,834</u>
Cash generated from operating activities			
Finance costs		(8,858)	(6,582)
Net cash from operating activities		<u>\$ 78,309</u>	<u>\$ 67,252</u>
Cash flows from investing activities			
Acquisition of investments	5	\$ (184,878)	\$ (175,293)
Transaction diligence costs	5	(3,957)	-
Proceeds from partner redemptions	5	141,806	116,277
Promissory notes issued	5	(36,154)	(16,467)
Promissory notes repaid	5	11,923	617
Acquisition of equipment		-	(32)
Net cash used in investing activities		<u>\$ (71,259)</u>	<u>(74,898)</u>
Cash flows from financing activities			
Repayment of debt	7	\$ (161,486)	\$ (116,277)
Proceeds from debt	7	201,721	196,528
Dividends paid	6	(59,203)	(59,032)
Deposits with CRA	9	(11)	(2,422)
Net cash from / (used in) financing activities		<u>\$ (18,979)</u>	<u>\$ 18,797</u>
Net increase / (decrease) in cash and cash equivalents		\$ (11,929)	\$ 11,151
Impact of foreign exchange on cash balances		(772)	(5,166)
Cash and cash equivalents, Beginning of year		35,475	29,491
Cash and cash equivalents, End of year		<u>\$ 22,774</u>	<u>\$ 35,475</u>
Cash taxes paid		\$ 10,494	\$ 26,712

Alaris Royalty Corp.

Notes to Consolidated Financial Statements

Years ended December 31, 2018 and 2017

1. Reporting entity

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements as at and for the year ended December 31, 2018 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's American investments are made through two Delaware Corporations, Alaris USA Inc. ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

2. Statement of compliance

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These consolidated financial statements were approved by the Board of Directors on March 5, 2019.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Investments at fair value are measured at fair value with changes in fair value recorded in earnings (see note 3).
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars which is the Corporation's functional currency. Alaris USA Inc. and Salaris USA have the United States dollar, while Alaris Cooperatief has the Canadian dollar as the functional currencies.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Information about assumptions, judgments and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next twelve months are as follows:

Key judgments

A key judgment relates to the consideration of control, joint control and significant influence in each of our investments. The Corporation has agreements with various partners and these agreements include not only clauses as to distributions but also various protective rights. The Corporation has assessed these rights under IFRS 10 and 11 and determined that consolidation is not appropriate. In a number of our investments we have protective rights, which provides the Corporation the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Corporation's rights to allow it to control the investment.

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of investments at fair value are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used.

2. Statement of Compliance (continued):

Collectability of amounts receivable

Management makes estimates on the timing and availability of cash flows from its partners to pay for amounts that are past due. These estimates are generally based on a combination of the relevant partners' most recently available financial information and past performance. Refer to note 5 for details on the Corporation's assessment of collectability of amounts receivable that are past due.

Income taxes

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. Management reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

In 2017, the President of the United States signed H.R.1, the Tax Cuts and Jobs Act (U.S. Tax Reform or the Act) into law. As a result, among other things, effective January 1, 2018, the enacted U.S. federal corporate income tax rate was reduced from 35 per cent to 21 per cent and interest deductibility was restricted. Existing deferred income tax assets and deferred income tax liabilities related to the Corporation's U.S. businesses were adjusted to reflect the new lower income tax rate as at December 31, 2017.

In 2018, the U.S. Treasury and the Internal Revenue Service issued proposed regulations relating to the 2017 U.S. Tax Reform which provided administrative guidance and clarified certain aspects of the new laws. The proposed regulations are complex and comprehensive, and considerable uncertainty continues to exist until the final regulations are released, which is expected to occur in 2019. The Corporation continues to review, analyze and assess the impact these new proposed regulations could have on the Company as the impact could be material.

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

(a) Basis of consolidation*(i) Subsidiaries*

Subsidiaries are entities controlled by the Corporation. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Transactions eliminated on consolidation

Intra-Corporation balances and transactions, and any unrealized income and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements.

(b) Revenue recognition

The Corporation recognizes revenue on its financial instruments in accordance with IFRS 9. Revenue is recognized when and only when, the Corporation becomes party to the monthly distributions related to the instruments and collection is reasonably assured.

(c) Financial instruments***Recognition and Initial Measurement***

Financial instruments are recognized when the Corporation becomes party to the contractual provisions of the instrument. Financial assets and liabilities are not offset unless the Corporation has the current legal right to offset and intends to settle on a net basis or settle the asset and liability simultaneously. A financial asset is derecognized when the rights to receive cash flows from the asset have expired or have been transferred and the Corporation has transferred substantially all the risks and rewards of ownership. A financial liability is derecognized when the obligation is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same counterparty with substantially different

3. Significant accounting policies (continued):

terms or the terms of an existing liability are substantially modified, this exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. When the terms of an existing financial liability are modified, but the changes to the terms are considered non-substantial, the modification is accounted for as a modification to the existing financial liability. The difference in the carrying amounts of liabilities as a result of both substantial and non-substantial modifications is recognized in profit and loss.

A financial asset or financial liability is initially measured at fair value, plus, for an item not at Fair Value through Profit or loss ("FVTPL"), transaction diligence costs that are directly attributable to its acquisition or issue. Transaction diligence costs directly attributable to financial assets or liabilities measured at FVTPL are expensed as incurred. Transaction diligence costs are directly related to the Corporation's investing activity and therefore presented as cash flow from investing in the consolidated cash flow statement.

Classification and Subsequent Measurement

On initial recognition, a financial asset is classified as measured at amortized cost, fair value through OCI ("FVOCI") or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Corporation changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

The Corporation characterizes its fair value measurements into a three-level hierarchy depending on the degree to which the inputs are observable, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets and liabilities;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Business Model Assessment

The Corporation makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

Solely Payments of Principal and Interest Assessment

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin.

3. Significant accounting policies (continued):

In assessing whether the contractual cash flows are solely payments of principal and interest, the Corporation considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

Financial Liabilities

Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Derivatives

Derivative financial instruments are classified as FVTPL unless designated for hedge accounting. Derivative instruments that do not qualify as hedges, or are not designated as hedges, are recorded using mark-to-market accounting whereby instruments are recorded as either an asset or liability with changes in fair value recognized in profit and loss.

(d) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

(e) Equipment

(i) *Recognition and measurement*

Equipment is measured at cost less accumulated depreciation.

(ii) *Depreciation*

Depreciation is based on the cost of an asset less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful life of the asset. Depreciation methods, useful lives and residual values are reviewed at each annual reporting date and adjusted if appropriate.

(f) Intangible assets

(i) *Intangible assets*

Intangible assets were comprised solely of the Corporation's investment in certain intellectual property of End of the Roll, which had a finite useful life and was measured at cost less accumulated amortization and accumulated impairment losses. The intangible assets were sold during the year ended December 31, 2018.

(ii) *Amortization*

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

The Corporation recognizes loss allowances for expected credit losses ("ECLs") on its financial assets measured at amortized cost. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument whereas 12 month ECLs are the ECLs that result from possible default over the next 12 months. The maximum period considered when estimating ECLs is the maximum contractual period over which the Corporation is exposed to credit risk. ECLs are a probability-weighted estimate of credit losses, twelve month ECLs are recorded on origination and changed to lifetime ECLs should a significant deterioration in credit risk arise. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

3. Significant accounting policies (continued):

(h) Share based payment transactions

The grant-date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service and non-market performance conditions at the vesting date.

(i) Finance costs

Finance costs comprise interest expense on borrowings and credit facility renewal fees. Borrowing costs that are not directly attributable to the acquisition of a qualifying asset are recognized in profit or loss using the effective interest method.

(j) Income tax

Income tax expense comprises current and deferred tax. Current and deferred tax is recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax payable also includes any tax liability arising from the declaration of dividends.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they related to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(k) Earnings per Share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise restricted share units and share options granted to employees.

3. Significant accounting policies (continued):

(l) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of the Corporation's entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items in a foreign currency that are measured based on historical cost are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on retranslation are recognized in profit or loss, except for available for sale equity investments (except on impairment in which case foreign currency differences that have been recognized in other comprehensive income are reclassified to profit or loss) which are recognized in other comprehensive income.

(m) Foreign operations

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at exchange rates at the dates of the transactions.

Foreign currency differences are recognized in other comprehensive income, and presented in the foreign currency translation reserve (translation reserve) in equity. When a foreign operation is disposed of such that control, significant influence or joint control is lost, the cumulative amount in the translation reserve related to that foreign operation is reclassified to profit or loss as a part of the gain or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign currency gains and losses arising from such items are considered to form part of a net investment in the foreign operation and are recognized in other comprehensive income, and presented in the translation reserve in equity.

(n) New standards

The Corporation has initially adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from January 1, 2018. The Corporation has adopted the standards retrospectively, and as permitted any transition adjustments are recorded in opening retained earnings under IFRS 9 the transition adjustment recorded in opening retained earnings. Comparative periods have not been restated.

IFRS 9: Financial Instruments

IFRS 9 introduces a single approach to determine whether a financial asset is measured at amortized cost or fair value and replaces the multiple rules in IAS 39. The approach is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The IAS 39 measurement categories for financial assets will be replaced by FVTPL, fair value through other comprehensive income and amortized cost.

IFRS 9 retains most of the IAS 39 requirements for financial liabilities and the Corporation did not require any changes in classification or measurement of financial liabilities on transition to IFRS 9.

A new expected credit loss model for calculating impairment on financial assets classified at amortized cost replaces the incurred loss impairment model used in IAS 39. The new model results in more timely recognition of expected credit losses.

3. Significant accounting policies (continued):

When financial assets are impaired by credit losses and the entity records the impairment in a separate account (eg an allowance account used to record individual impairments or a similar account used to record a collective impairment of assets) rather than directly reducing the carrying amount of the asset, it shall disclose a reconciliation of changes in that account during the period for each class of financial assets.

As a result of the adoption of IFRS 9, the following classification and measurement changes have been reflected:

Financial Instrument	IAS 39		IFRS 9	
	Category	Measurement	Category	Measurement
Cash and cash Equivalents	FVTPL	Fair value	Amortized cost	Amortized cost
Trade and other receivables	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Foreign exchange contracts	FVTPL	Fair value	FVTPL	FVTPL
Promissory notes receivable	Loans and receivables	Amortized cost	Amortized cost	Amortized cost
Investments	Available for sale financial assets	Fair value	FVTPL or amortized cost	FVTPL or amortized cost
Accounts payable and accrued liabilities	Other liabilities	Amortized cost	Amortized cost	Amortized cost
Loans and borrowings	Other liabilities	Amortized cost	Amortized cost	Amortized cost

The classification and measurement of investments on transition to IFRS 9 as FVTPL is due to the business model of held to collect, and contractual cash flows being other than solely payments of principal and interest. Although the investments at FVTPL (“investments at fair value”) will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. On the date of transition no investment was classified at amortized cost. Therefore a transition adjustment of \$17.0 million was made to move cumulative fair value gains or losses from the fair value reserve to retained earnings.

For those financial assets classified and measured at amortized cost, the expected credit loss model is applied to determine impairment of financial assets. This applies to trade and other receivables, as well as promissory notes receivable.

There was no material change from the Corporation’s existing methodology in determining credit losses to the expected credit loss model that is applied to assets classified at amortized cost effective January 1, 2018. Therefore, there was no transition adjustment required.

Classification of legal and accounting fees directly related to transactions

In addition, IFRS 9 requires that transaction costs be expensed as incurred for financial assets measured at FVTPL. As the Corporation’s investments at December 31, 2017 were recorded at fair value, there was no adjustment to opening retained earnings to reflect this change in treatment.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, there has been no change to the Corporation’s revenue recognition and no transition adjustment was required.

4. Financial Risk Management Overview

The Corporation has exposure to the following risks from its use of financial instruments:

- credit risk and other price risk
- liquidity risk

4. Financial risk management (continued):

- market risk
- foreign exchange risk

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Corporation's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. The Board has established the Risk Management Committee, which is responsible for developing and monitoring the Corporation's risk management policies. The committee reports regularly to the Board of Directors on its activities.

The Corporation's risk management policies are established to identify and analyze the risks faced by the Corporation, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Corporation's activities. The Corporation aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Corporation's Audit Committee oversees how management monitors compliance with the Corporation's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Corporation. The Audit Committee undertakes both regular and ad hoc reviews of risk management controls and procedures.

Credit Risk and Other Price Risk

Credit risk is the risk of financial loss to the Corporation if a partner or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments and amounts and promissory notes receivable. Concentrations of credit risk exist when a significant proportion of the Corporation's assets are invested in a small number of individually significant investments, and investments with similar characteristics and/or subject to similar economic, political and other conditions that may prevail. The Corporation's exposure to credit risk is influenced mainly by the individual characteristics of each customer.

However, management also considers the demographics of counterparties, including the default risk of the industry and country in which counterparties operate, as these factors may have an influence on credit risk. No single partner accounted for more than 20% of the Corporation's revenue in the year ended December 31, 2018 and 2017.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. Changes in cash flow from investments is generally based on a percentage of the investments' gross revenue, same store sales, gross margin or other similar revenue. Accordingly, to the extent that the financial performance of the investment declines in respect of the relevant performance metric, cash payments to the Corporation will decline. Portfolio investment agreements allow for the repayment of investments at the option of the portfolio entity, and such repayment could affect future cash flows.

The Corporation is exposed to credit related losses on current and future amounts receivable pursuant to investment agreements and outstanding promissory notes. In the event of non-performance by partners, future royalty and distribution revenue from the investments could be reduced, resulting in impairment of investment values. The investment agreements typically provide that payments are receivable monthly no later than the last day of the month.

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of \$22.8 million at December 31, 2018 (December 31, 2017 - \$35.5 million), which represents its maximum credit exposure on these assets. The unusually high amount of cash was in place in order to fund transactions just subsequent to December 31st in each year, US\$8.0 million in January 2019 (see Note 13) and US\$15.0 million in January 2018 (see Note 5).

4. Financial risk management (continued):

The carrying amount of investments, trade and other receivables, promissory notes, and cash and cash equivalents represents the maximum credit exposure.

Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation.

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a \$300 million, four year revolving credit facility, and has \$228.1 million balance drawn at December 31, 2018 (\$173.5 million at December 31, 2017). The Corporation has the following financial liabilities that mature as follows:

31-Dec-18	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	\$ (3,670)	\$ (3,670)	\$-	\$-	\$-
Dividends payable	(5,013)	(5,013)	-	-	-
Foreign exchange contracts	(1,333)	(835)	(330)	(168)	
Loans and borrowings	(228,103)	-	-	-	(228,103)
Total	\$ (238,119)	\$ (9,517)	\$ (330)	\$ (168)	\$ (228,103)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Corporation's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. All such transactions are carried out within the guidelines set by the Risk Management Committee.

Foreign currency exchange rate risk and commodity price risk

As a result of the investments in the United States, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis (current notional value of US\$25.5 million). The Corporation intends to purchase additional contracts each quarter so that approximately two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. As at December 31, 2018, if the US foreign exchange rate had been \$0.01 lower with all other variables held constant, net income for the year would have been approximately \$0.1 million higher, due to a smaller unrealized foreign exchange loss during the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been \$0.01 higher.

Additionally, the Corporation has US dollar subsidiaries and loans in US dollars (external senior debt, intercompany and with Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded in earnings. As at December 31, 2018, if the US foreign exchange rate had been \$0.01 lower with all other variables held constant, net income for the year would have been approximately \$4.0 million lower due to lower net income from US subsidiaries, a larger unrealized loss on loans to subsidiaries and Federal Resources, partially offset by a higher unrealized gain on USD denominated external debt.

4. Financial risk management (continued):

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2018, if interest rates had been 1% higher with all other variables held constant, net income (before tax) for the year would have been approximately \$1.4 million lower, due to higher interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% lower. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2018.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a four year, \$300.0 million revolving credit facility, a \$50.0 million accordion facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 2.5:1 which can extend to 3.0:1 for a period of 90 days. Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses, the Corporation can include twelve months of revenue from partners that are less than twelve months from closing and must exclude revenue from partners for the portion that was redeemed or repurchased and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1. Additionally, a minimum tangible net worth requirement of \$450.0 million is in place. Tangible net worth is defined as subordinated debt plus shareholders equity less intangible assets. The Corporation was in compliance with all debt covenants at December 31, 2018 (please refer to note 7 for actual ratios as of December 31, 2018). In order to acquire more distributions and royalties, the Corporation can access its credit facility for investing activity. Any funding requirements for acquisitions in excess of availability under the credit facility will require the Corporation to access public equity markets and manage the business within the bank covenants. There were no significant changes in the Corporation's approach to capital management, with the exception of an expected increase of permanent long term debt in the capital structure if it reduces the Corporation's cost of capital.

5. Investments

The following table lists the Corporation's investments at period end. For each periods presented, all of the investments are recorded at fair value with the exception of the GWM loan receivable, which is recorded at amortized cost. Investments highlighted with asterisks are denominated in US dollars and have been translated into Canadian dollars using the period end exchange rate.

31-Dec-18 \$ thousands	Acquisition Cost	Carrying Value
Lower Mainland Steel Limited Partnership ("LMS")*	\$ 60,690	\$ 39,769
SCR Mining and Tunneling, LP ("SCR")	40,487	28,903
Kimco Holdings, LLC ("Kimco")*	48,016	25,965
PF Growth Partners, LLC ("Planet Fitness")*	28,913	34,064
DNT, LLC ("DNT")*	93,082	94,059
Federal Resources Supply Company ("FED")*	92,674	100,309
Sandbox Acquisitions, LLC ("Sandbox")*	48,711	53,318
Providence Industries, LLC ("Providence")*	41,459	39,007
Unify, LLC ("Unify")*	16,803	18,441
ccCommunications LLC ("ccComm")*	22,183	21,755
Accscient, LLC ("Accscient")*	41,829	42,261
Sales Benchmark Index LLC ("SBI")*	116,585	124,783
Heritage Restoration, LLC ("Heritage")*	18,511	21,556
Fleet Advantage, LLC ("Fleet")*	19,802	20,464
Body Contour Centers, LLC ("BCC")*	59,418	62,763
GWM Holdings, Inc ("GWM")*	5,975	6,139
GWM Loan Receivable at amortized cost*	55,104	56,619
Total Investments	\$ 810,242	\$ 790,175
31-Dec-17	Acquisition Cost	Carrying Value
Lower Mainland Steel Limited Partnership ("LMS")*	\$ 60,690	\$ 35,917
Labstat International, LP ("Labstat")	47,719	61,324
Agility Health, LLC ("Agility")*	26,013	26,133
SCR Mining and Tunneling, LP ("SCR")	40,487	26,203
Kimco Holdings, LLC ("Kimco")*	44,180	29,045
PF Growth Partners, LLC ("Planet Fitness")*	50,999	57,427
DNT, LLC ("DNT")*	85,883	89,933
Federal Resources Supply Company ("FED")*	35,058	40,576
Sandbox Acquisitions, LLC ("Sandbox")*	44,819	46,517
Providence Industries, LLC ("Providence")*	38,147	40,661
Unify, LLC ("Unify")*	22,993	24,499
ccCommunications LLC ("ccComm")*	8,242	7,941
Accscient, LLC ("Accscient")*	26,435	25,514
Sales Benchmark Index LLC ("SBI")*	107,271	107,158
Prospective deals	155	155
FED Loan Receivable*	50,212	50,212
Total Investments	\$ 689,304	\$ 669,216

5. Investments (continued):

Transactions closed in 2018**Q1 2018****Investment in Heritage Restoration, LLC (“Heritage”)**

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC, pursuant to which the Corporation invested US\$15.0 million in exchange for preferred units in Heritage. The Corporation is entitled to an annual distribution of US\$2.3 million for the first full year following the transaction, which equates to an initial yield of 15%. US\$3.0 million of the Heritage units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage contribution was used to fund the management buyout of the existing shareholder.

Redemption of Agility Health, LLC Units (“Agility”)

On February 28, 2018, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US\$22.2 million for the preferred units Alaris held in Agility, which includes a premium of US\$2.1 million over Alaris' original cost of US\$20.1 million; (ii) US\$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US\$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US\$1.5 million of the repurchase price to be paid to Alaris was placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris. The escrow period expires on August 31, 2019.

The Corporation recorded a gain on redemption of CAD\$1.7 million during the year ended December 31, 2018 which represents the excess of total consideration received (US\$22.2 million, US\$20.7 million in cash and US\$1.5 million held in escrow and recorded as long-term accounts receivable) above the carrying value of US\$20.8 million converted to Canadian dollars. The cumulative fair value adjustments previously recorded through other comprehensive income were transferred to retained earnings on January 1, 2018 to reflect the changes in accounting standards (as described in note 3). As a result of the gain on redemption, the Corporation paid US\$2.6 million in taxes during the year ended December 31, 2018.

Kimco Holdings, LLC Additional Contribution (“Kimco”)

On March 30, 2018, the Corporation loaned US\$6.0 million to Kimco to replace existing subordinated debt. The loan has a five year term and an annual yield of 12% (US\$0.7 million).

On July 26, 2018, the Corporation loaned an additional US\$3.8 million to Kimco to fund working capital. The Corporation is entitled to an annual yield of 8% (US\$0.3 million), paid monthly. Both the subordinated debt and the loan mature on March 30, 2023.

Q2 2018**PF Growth Partners, LLC Partial Redemption (“Planet Fitness”)**

On May 11, 2018, the Corporation received a partial redemption of US\$25.0 million from Planet Fitness in exchange for preferred units which had an associated US\$3.3 million of annual distributions. The gain on the partial redemption was recorded as a fair value increase as at and for the three months ended March 31, 2018 of \$3.5 million CAD. Subsequent to the transaction, the Corporation is entitled to US\$3.5 million of annualized distributions on a remaining cost basis of US\$20.6 million and fair value of US\$23.5 million.

ccCommunications, LLC Additional Contribution (“ccComm”)

On May 31, 2018, the Corporation contributed US\$10.0 million to ccComm. in exchange for annualized distributions of US\$1.4 million. The proceeds were used to fund an acquisition in their related industry. The Corporation has invested a total of US\$16.2 million funded over three tranches in exchange for an annualized distribution of US\$2.3 million.

5. Investments (continued):

Fleet Advantage, LLC Initial Investment (“Fleet”)

On June 15, 2018, the Corporation contributed US\$15.0 million into Fleet in exchange for a first year annualized distribution of US\$2.1 million. Fleet has the option to pay a portion of the Fleet distribution, subject to a maximum yield of 2% (US\$0.3 million in the first year) of the total yield (14% in the initial year) in any given year as payment-in-kind (“PIK”) provided that any amounts subject to the PIK must be paid in cash every three years. US\$7.5 million of the Fleet units are redeemable at par at any time. The Fleet distribution will be adjusted annually (commencing January 1, 2020) based on the change in net revenues, subject to a 6% collar. The Fleet contribution was used to fund continued growth and provide partial liquidity to existing shareholders.

Labstat International, ULC Redemption (“Labstat”)

On June 25, 2018, the Corporation received \$61.3 million as a result of the Labstat redemption, which represents a premium of \$13.6 million over Alaris’ original cost of \$47.7 million. The fair value of the units were previously increased to reflect the maximum repurchase price, therefore no gain was recorded at the time of disposition.

Concurrent with the redemption of the preferred units, the Corporation also received \$4.3 million for previously unpaid distributions. The amounts received were recognized as revenue at the date of redemption. The Corporation had previously not assigned any value on its balance sheet to the collection of the \$4.3 million of unpaid distributions because the amount and timing were dependent on the redemption of the preferred units.

As part of the redemption the Corporation received the repayment of the \$3.7 million promissory note outstanding and \$0.3 million of accrued interest. Prior to the redemption the Corporation also received the 2017 cash sweep of \$4.2 million.

End of the Roll Redemption

On June 29, 2018, the Corporation received \$12.6 million as a result of the End of the Roll repurchasing the outstanding intangible asset. The End of the Roll intangible asset had a carrying value of \$6.0 million and an original cost of \$7.2 million. The Corporation recognized a \$6.5 million gain upon redemption.

Q3 2018

Accscient, LLC Additional Contributions (“Accscient”)

On June 15, 2018, the Corporation contributed an additional US\$3.0 million to Accscient in exchange for an additional annualized distributions of US\$0.4 million.

On August 9, 2018, the Corporation contributed an additional US\$7.0 million to Accscient in exchange for an additional annualized distributions of US\$1.0 million. The proceeds for both contributions were used to fund acquisitions in their related industry.

Investment in Body Contour Centers, LLC (“BCC”)

On September 14, 2018, the Corporation entered into subscription and operating agreements with BCC, pursuant to which the Corporation made the initial contribution of US\$46.0 million in exchange for preferred units in BCC, which entitles the Corporation to an initial annual distribution of US\$6.4 million. BCC has the option to pay a portion of the BCC Distribution, subject to a maximum of 2% of the aggregate contributed capital any given year as payment in kind (“PIK”) provided that any amounts subject to the PIK must be paid every three years. The BCC distribution will be adjusted annually (commencing January 1, 2020) based on the change in same clinic sales, subject to a 6% collar. The BCC Contribution was used to provide partial liquidity to existing equity holders.

The Corporation has also committed as part of the operating and subscription agreements with BCC to the additional contributions consisting of US\$20.0 million (“BCC Tranche 2”) and US\$25.0 million (“BCC Tranche 3”). The additional contributions will be funded upon BCC satisfying certain financial targets. The additional BCC contributions will carry the same terms as the original BCC contribution. Up to 25% of the BCC units are redeemable at par at any time following the earlier of the second tranche closing and three years from the original closing date, prior to such time these units are non-redeemable.

5. Investments (continued):

Lower Mainland Steel Limited Partnership (“LMS”)

On September 20, 2018, the Corporation provided \$5.0 million of short term debt to LMS in exchange for annual interest of \$0.4 million. The loan is repayable in one year, with interest rate increases of an additional 2% annually automatically taking effect at the anniversary date of the contribution.

Q4 2018**Sandbox, LLC Debt Purchase (“Sandbox”)**

On October 29, 2018, the Corporation purchased the outstanding senior debt of Sandbox for US\$12.5 million with an additional US\$1.0 million added in December 2018. The outstanding debt consists of US\$6.6 million of term debt and US\$7.4 million of an asset backed lending (“ABL”) facility. The term debt matures on March 8, 2021 and is amortizing over 5 years with annual repayments of US\$1.6 million, paid monthly. The term debt and the ABL facility interest are based on a LIBOR spread, also paid monthly. The purchase of the debt provides the Corporation with all legal rights of the senior lender agreement.

Investment in GWM Holdings, Inc (“GWM”)

On November 19, 2018, the Corporation contributed a total of US\$46.0 million to GWM in exchange for initial distributions of US\$5.6 million. The legal structure of GWM being a corporation (compared to the traditional LLC's) required the contribution to be comprised of US\$41.5 million of debt and US\$4.5 million of preferred equity to optimize the amount of taxes paid by our partner. Distributions received by GWM are after tax and therefore the Corporation pays less taxes than comparable transactions into a Limited Liability Corporation. The GWM distribution will be adjusted annually (commencing January 1, 2020) based on the change in revenue, subject to a 8% collar.

Partial Redemption of Unify (“Unify”)

On December 12, 2018, Unify returned US\$6.0 million of their redeemable preferred units at par, in accordance with our operating agreement.

Transactions closed in 2017**Investment in ccCommunications LLC (“ccComm”)**

The Corporation contributed US\$6.2 million to ccComm in 2017 in exchange for an annualized distribution of US\$0.9 million. ccComm is a Sprint retailer with over 70 locations throughout the Northwest U.S. The reset metric is net revenue with a collar of plus or minus 6%.

Redemption of KMH Limited Partnership (“KMH”) Units

On June 19, 2017, total consideration of \$30.5 million (\$9.8 million of cash and \$20.7 million of secured promissory notes) was exchanged for the redemption of all outstanding preferred units (the “Alaris Preferred Units”) and the outstanding \$3.5 million promissory note as a result of the sale of the majority of KMH's Canadian clinics to a third party (the “Third Party Sale”). The \$20.7 million of promissory notes (the “Phoenix Notes”) are issued by Phoenix Holdings Limited (“Phoenix”), a company controlled by the former principals of KMH, and are secured by way of first security on Phoenix's U.S. business that was carved out of the Third Party Sale, a right to the residual value in certain real estate assets owned by Phoenix and its principals, and a preferred liquidation position on the equity in the Canadian business retained by Phoenix as a result of the Third Party Sale. Since this transaction the Corporation the remaining loans were reduced to nil in 2018 due to the timing and uncertainty surrounding their collection, please see promissory notes section further down in note 5.

Return of US\$2 million of Redeemable Units from DNT, LLC (“DNT”)

On May 26, 2017, as per the terms of the partnership agreement, DNT returned US\$2 million (CAD\$2.7 million) as calculated based on their excess cash flow sweep. The return of US\$2.0 million of redeemable shares result in the reduction of DNT net cost to US\$68 million (US\$40 million permanent units in addition to US\$28 million of redeemable units).

5. Investments (continued):

Investment in Accscient, LLC (“Accscient”)

The Corporation contributed US\$20.0 million into Accscient LLC on June 20, 2017 in exchange for an annualized distribution of US\$3.0 million. The Accscient distribution will be reset annually based on the percentage change in gross profit with a collar of plus or minus 5%. The Accscient contribution is made up of US\$14.0 million of permanent units as well as US\$6.0 million of redeemable units. The redeemable units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the Accscient contribution at Accscient’s discretion. After the third anniversary the redeemable units will have the same repurchase metrics as the permanent units.

Investment in Sales Benchmark Index LLC (“SBI”)

On August 31, 2017, the Corporation contributed US\$85.0 million into SBI in exchange for an annualized distribution of US\$11.1 million on August 31, 2017. The SBI distribution will be reset annually based on the percentage change in gross revenue with a collar of plus or minus 8%. The SBI contribution is made up of US\$75.0 million of permanent units as well as US\$10.0 million of redeemable units. The redeemable units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the SBI contribution at SBI’s discretion. After the third anniversary the redeemable units will have the same repurchase metrics as the permanent units.

Redemption of Sequel Youth and Family Services, LLC (“Sequel”) Units

On September 1, 2017, Sequel redeemed all units for total proceeds of US\$95.9 million (the “Sequel Redemption”). The Corporation recognized a US\$21.6 million (approximately CAD\$26.6 million) gain through earnings as proceeds on redemption (US\$95.9 million) exceeded total capital invested (US\$74.1 million). The Corporation paid US\$12.8 million of taxes from the gain on redemption of the Sequel units during the year ended December 31, 2017. These taxes were a direct result of the proceeds on redemption of the Sequel units exceeding the cost basis of the units.

S.M. Group International LP (“Group SM”)

During the year ended December 31, 2017, Group SM received the final judgment related to an international arbitration process and the amount awarded was substantially less than anticipated. Therefore, Group SM was not in a position to repay the previously accrued \$9.8 million in unpaid distributions. The Corporation therefore recorded a \$9.8 million bad debt expense. The fair value of the preferred units were reduced in the year to nil as they are subordinate to the secured and unsecured debt on Group SM’s balance sheet. The permanent impairment of \$41.0 million of the Group SM units was recorded through the statement of profit or loss.

Sandbox Acquisitions, LLC (“Sandbox”) Additional Contribution

In 2017, the Corporation contributed an additional US\$13.0 million into Sandbox LLC in exchange for an annualized distribution of US\$1.9 million. The Sandbox additional contributions were used to fund an acquisition and a performance earn out in connection with a prior acquisition.

Federal Resources Supply Company (“FED”) Additional Contribution

On December 13, 2017, the Corporation contributed an additional US\$13.5 million into FED in exchange for an annualized distribution of US\$1.8 million. The contribution was used to partially fund an acquisition.

5. Investments (continued):

Assumptions used in fair value calculations

The Corporation recognizes that the determination of fair value of its investments at fair value becomes more judgmental the longer the investment is held. The price the Corporation pays for its investments is fair value at that time. Typically, the risk profile and future cash flows expected from the individual investments change over time. The Corporation's valuation model incorporates these factors each reporting period.

The Corporation estimated the fair value of the investments at fair value by evaluating a number of different methods:

- a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris' publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.3% - 19.5%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments. All of the investments except as noted below were valued on this basis at December 31, 2018 and December 31, 2017.
- b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation or when the Corporation has been notified of redemption and is reasonably certain in collecting the liquidation value. The liquidation value is calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). There were no investments valued this way as of December 31, 2018. The Corporation's investment in Agility was valued on this basis at December 31, 2017.

From this analysis, management of the Corporation determined the fair value of the investments at fair value for each individual Partner and below is a summary of the fair value adjustments in 2018 and 2017.

Transaction diligence costs:

Prior to the adoption of IFRS 9 on January 1, 2018, the Corporation capitalized transaction diligence costs (legal and accounting costs) relating to a specific investment once a letter of intent had been signed. These costs were added to the fair value of the individual investment. As a result of adopting IFRS 9, the Corporation is now required to expense these costs through profit and loss when incurred. During 2018, the Corporation expensed \$3.9 million of transaction diligence costs that would have been capitalized under the previous accounting standard. Under the previous accounting standard capitalized transaction diligence costs increased the cost basis of individual investments and were recognized through net income upon redemption of those partner units, a smaller gain or larger loss.

5. Investments (continued):

Investments (\$ thousands)	Opening Carrying Value	Additions	Redemptions	Foreign Exchange Adjustment	Fair Value Adjustment	Closing Carrying Value
2018						
Lower Mainland Steel	\$ 35,917	\$ -	\$ -	\$ 502	\$ 3,350	39,769
Labstat	61,324	-	(61,324)	-	-	-
Agility	26,133	-	(26,472)	337	-	-
SCR	26,203	-	-	-	2,700	28,903
Kimco	29,045	-	-	2,293	(5,372)	25,965
Planet Fitness	57,427	-	(32,337)	3,521	5,454	34,064
DNT	89,933	-	(259)	7,735	(3,350)	94,059
FED	90,788	-	-	7,936	1,584	100,309
Sandbox	46,517	-	-	3,913	2,888	53,318
Providence	40,661	-	-	3,408	(5,062)	39,007
Unify	24,499	-	(8,186)	2,128	-	18,441
ccComm.	7,941	13,200	-	1,150	(536)	21,755
Accscient	25,514	13,027	-	2,939	780	42,261
SBI	107,157	-	-	9,561	8,066	124,783
Heritage	156	18,354	-	2,008	1,036	21,555
Fleet	-	19,801	-	663	-	20,464
BCC	-	59,418	-	3,345	-	62,763
GWM	-	5,975	-	164	-	6,140
GWM loan receivable	-	55,104	-	1,515	-	56,619
Investments - December 31, 2018	\$ 669,216	\$ 184,878	\$ (128,577)	\$ 53,120	\$ 11,537	\$ 790,175
2017						
Lower Mainland Steel	\$ 36,215	\$ -	\$ -	\$ (422)	\$ 125	\$ 35,917
KMH	26,947	-	(26,947)	-	-	-
Labstat	49,199	-	-	-	12,125	61,324
Agility	26,965	-	-	(1,837)	1,004	26,133
SCR	30,488	-	-	-	(4,285)	26,203
Sequel	109,498	214	(101,466)	(8,246)	-	-
Group SM	40,217	-	-	-	(40,217)	-
Kimco	31,166	-	-	(2,122)	-	29,045
Planet Fitness	59,062	-	-	(4,021)	2,385	57,427
DNT	99,197	-	(2,694)	(6,569)	-	89,933
FED	75,680	16,947	-	(5,152)	3,314	90,788
Sandbox	30,538	16,342	-	(1,833)	1,469	46,517
Providence	40,950	-	-	(2,788)	2,498	40,661
Unify (formerly Matisia)	24,672	-	-	(1,680)	1,506	24,499
ccComm.	196	7,994	-	(249)	-	7,941
Accscient	-	26,473	-	(958)	-	25,514
SBI	-	107,270	-	(113)	-	107,157
Prospective deals	102	54	-	-	-	156
Investments - December 31, 2017	\$ 681,093	\$ 175,293	\$ (131,107)	\$ (35,989)	\$ (20,076)	\$ 669,216

5. Investments (continued):

Royalties and Distributions:

The Corporation recorded royalty and distribution revenue and interest and other income as follows:

Royalties and distributions:	Year ended December 31	
<i>\$ thousands</i>	2018	2017
DNT	\$ 14,831	\$ 14,216
SBI	14,320	4,642
FED	13,864	11,074
Labstat	8,340	7,940
Sandbox	7,150	4,909
Planet Fitness	6,349	8,488
Providence	6,125	5,843
LMS	5,170	4,746
Accscient	4,711	1,926
Unify	3,502	3,506
Heritage	2,730	-
Body Contour Centers	2,495	-
ccComm	2,299	883
SCR	1,650	600
Fleet	1,495	-
GlobalWide	830	-
Kimco	780	-
End of the Roll	692	1,266
Agility Health	637	3,972
Sequel	-	12,174
Group SM	-	500
Total Royalties and Distributions	\$ 97,970	\$ 86,684
Other Income		
Interest	2,109	2,389
Total Revenue	\$ 100,079	\$ 89,073

As of December 31, 2018, trade receivables are as follows.

Trade Receivables	31-Dec-18	31-Dec-17
<i>\$ thousands</i>		
Labstat	\$ -	\$ 4,239
Agility	-	2,973
Other receivables	923	1,430
Balance at December 31, 2018	\$ 923	\$ 8,642

The other receivables are all greater than 90 days, the Corporation expects to reduce this balance to zero within the next twelve months. The Corporation recorded a bad debt expense of \$0.5 million during the year ended December 31, 2018 (December 31, 2017 - \$9.8 million). In both periods the amounts related to accrued distributions and interest outstanding with Group SM.

5. Investments (continued):

Royalties and Distributions:

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. The Corporation will continue to pursue recovery of the full face value for all outstanding promissory notes. Should there be an adverse event to any of the above businesses, the timing and amounts collected could be negatively impacted. The differences between carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. Below is a summary of changes in promissory notes and other receivables for the year ended December 31, 2018.

Reconciliation of Promissory Notes and Other Receivables	Year ended December 31	
	31-Dec-18	31-Dec-17
(\$ thousands)		
Face Value - Opening	\$ 63,906	\$ 31,417
Opening provision for credit losses	(16,486)	(1,603)
Carrying Value - Opening	\$ 47,420	\$ 29,814
Additions - cash	36,154	16,467
Additions - in kind	1,918	17,142
Repayments	(11,923)	(617)
Bad debt expense	(25,431)	(13,617)
Reserve	-	(1,474)
Foreign exchange	2,072	(295)
Carrying Value - Ending	\$ 50,211	\$ 47,420
Promissory notes & other receivables - current	\$ 23,252	\$ 15,403
Promissory notes & other receivables - non-current	\$ 26,959	\$ 32,017

The Corporation has the following promissory notes and long-term receivables by partner outstanding as of December 31, 2018:

Promissory Notes and Other Receivables by Partner	Carrying Value	
	31-Dec-18	31-Dec-17
(\$ thousands)		
Lower Mainland Steel	\$ 5,000	\$ -
Sandbox - current portion of term debt + revolver	18,136	-
Group SM - Secured Promissory Note (2)	4,500	10,000
Agility - accounts receivable	2,046	-
Kimco - LT accounts receivable	2,494	2,281
Kimco	18,035	4,305
Group SM - Unsecured Promissory Note	-	11,600
Phoenix Secured Loan (1)	-	13,831
Other - former partners	-	5,403
Balance	\$ 50,211	\$ 47,420

(1) The Phoenix US assets (formerly KMH) were sold to a third party in the year ended December 31, 2018. Consideration included US\$1.5 million of secured debt with additional proceeds of up to US\$4.0 million to be received if certain revenue targets are achieved over a period of three years. Due to the increased uncertainty over timing of and collection of amounts owing, the Corporation recorded a full reserve of the carrying amount of the Phoenix US loan and the Phoenix CDN loan totaling \$13.8 million during the year ended December 31, 2018. Due to the uncertainty no value has been assigned to either asset as of December 31, 2018.

5. Investments (continued):

(2) In 2017, the Corporation provided \$10.0 million to Group SM, which is secured against outstanding accounts receivable and has a first lien on the business. On October 15, 2018, all of the assets of Group SM were sold, the Corporation received \$5.5 million in cash proceeds during the three months ended December 31, 2018. The remaining \$4.5 million is estimated to be received in the next twelve months as the purchaser has indicated to the Corporation an intent to repay the Corporation in the near term (received an additional \$0.9 million subsequent to year end). The Corporation is receiving monthly interest payments on the outstanding balance at an interest rate of 6.7% per annum. The Corporation recorded a bad debt expense of \$11.6 million related to Group SM unsecured promissory note during the year ended December 31, 2018.

The expected credit loss model classifies the Corporations outstanding promissory notes and other receivables in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 representing loans that are in default or past due. As at December 31, 2018 the Corporation had \$47.7 million (December 31, 2017 - \$19.7 million) of promissory notes and other receivables classified as stage 1 and \$2.5 million classified as stage 3 (December 31, 2017 - \$27.7 million). There was no transfer between stages during the year ended December 31, 2018.

Based on the opening credit loss provision \$16.5 million and the addition of \$25.4 million during the period the total credit loss provision as at December 31, 2018 is \$41.9 million.

6. Share capital:

The Corporation has authorized, issued and outstanding, 36,496,247 voting common shares as at December 31, 2018 (December 31, 2017 - 36,481,247).

Issued Common Shares	Number of Shares	Amount (\$)
	<i>thousands</i>	<i>\$ thousands</i>
Balance at December 31, 2016	36,336	\$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at December 31, 2017	36,481	\$ 620,842
RSUs vested	15	240
Balance at December 31, 2018	36,496	\$ 621,082

Weighted Average Shares Outstanding	Year ended December 31	
<i>thousands</i>	2018	2017
Weighted average shares outstanding, basic	36,490	36,447
Effect of outstanding options	-	15
Effect of outstanding RSUs	276	292
Weighted average shares outstanding, fully diluted	36,766	36,754

2,242,364 and 1,723,160 options were excluded from the calculation as they were anti-dilutive at December 31, 2018 and December 31, 2017 respectively.

Dividends

The Corporation increased their monthly dividend from \$0.135 per common share to \$0.1375 in November 2018 (effective December 2018). The Corporation declared dividends of \$0.135 per common share for the first eleven months of 2018, \$1.6225 per share and \$59.3 million in aggregate (2017 - \$1.62 per share and \$59.0 million in aggregate).

7. Loans and borrowings

As at December 31, 2018 the Corporation had a \$300 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base

7. Loans and borrowings (continued):

Rate (“USBR”) and LIBOR. The Corporation realized a blended interest rate of 5.7% for the year ended December 31, 2018. During the year, another bank joined the lending syndicate and the facility was increased from \$280 million to \$300 million and at the same time the accordion feature was reduced from \$70 million to \$50 million. At December 31, 2018, the facility was \$228.1 million drawn (December 31, 2017 - \$173.5 million).

Debt Continuity	Denominated Debt		Total
	\$USD	\$CAD	\$CAD
\$ thousands			
Balance at December 31, 2017	\$ 112,700	\$ 32,000	\$ 173,464
Senior debt repayment (Agility redemption)	(26,500)	N/A	(34,039)
Senior debt advance (Kimco sub debt)	6,000	N/A	7,739
Senior debt advance (ccComm. tranche #2)	10,000	N/A	12,993
Senior debt advance (Fleet)	15,000	N/A	19,511
Senior debt repayment (Labstat redemption)	(30,000)	(32,000)	(71,894)
Senior debt repayment (PF partial redemption)	(28,000)	N/A	(35,930)
Senior debt repayment (EOR redemption)	(5,000)	N/A	(6,583)
Senior debt advance (Accscient tranches #2, #3, #4)	18,000	N/A	23,877
Senior debt advance (Sono Bello)	46,000	N/A	60,504
Senior debt advance (LMS promissory note)	N/A	5,000	5,000
Senior debt advance (Sandbox debt purchase)	9,000	N/A	11,755
Senior debt advance (GlobalWide)	46,000	N/A	60,343
Senior debt repayment (Group SM secured note proceeds)	N/A	(5,000)	(5,000)
Senior debt repayment (Unify partial redemption)	(6,000)	N/A	(8,041)
Unrealized FX (gain) / loss on USD denominated debt	N/A	N/A	14,404
Balance at December 31, 2018	\$ 167,200	\$ -	\$ 228,103

At December 31, 2018 the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to ninety days (actual ratio is 2.30:1 at December 31, 2018); minimum tangible net worth of \$450.0 million (actual amount is \$635.8 million at December 31, 2018); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.21:1 at December 31, 2018).

8. Share-based payments

The Corporation has a Restricted Share Unit Plan (“RSU Plan”) and a Stock Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of Restricted Share Units (“RSUs”) and Stock Options (“Options”) subject to a maximum of ten percent of the issued and outstanding common shares of the Corporation.

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 403,441 and issued 276,651 RSUs to management and Directors as of December 31, 2018. The RSUs issued to directors (78,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018 not vested yet due to restrictions under the RSU plan, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The Corporation has approved 157,300 RSUs for management and 15,000 RSUs for directors that have not yet been granted due to restrictions under the RSU plan. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management’s estimate of the future performance conditions and will be amortized over the thirty-six month vesting period.

8. Share-based payments (continued):

The Corporation has reserved 3,102,181 and issued 2,242,364 options as of December 31, 2018. The options outstanding at December 31, 2018, have an exercise price in the range of \$20.60 to \$33.87, a weighted average exercise price of \$25.56 (2017 – \$25.56) and a weighted average contractual life of 2.05 years (2017 – 2.96 years).

For the year ended December 31, 2018 the Corporation incurred stock-based compensation expenses of \$2.9 million (2017 - \$3.4 million) which includes: \$1.9 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2017 - \$2.2 million); and \$1.0 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2017 - \$1.2 million).

Options Summary	Weighted Avg Exercise Price 2018	Number of Options - 2018	Weighted Avg Exercise Price 2017	Number of Options - 2017
Outstanding at January 1	\$25.56	2,242,364	\$26.94	1,726,182
Exercised during the year	\$0.00	-	\$19.40	(197,525)
Expired during the year	\$0.00	-	\$23.63	(356,511)
Forfeited during the year	\$0.00	-	\$0.00	-
Granted during the year	\$0.00	-	\$21.56	1,070,218
Outstanding at December 31	\$25.56	2,242,364	\$25.56	2,242,364
Exercisable at December 31	\$25.08	1,043,432	\$30.38	865,788

During the year ending December 31, 2018, the Corporation issued 15,000 shares as a result of vested RSUs.

The following table summarizes the options outstanding and exercisable as at December 31, 2018:

Exercise price	Number outstanding		Weighted average remaining life (years)		Number exercisable	
	2018	2017	2018	2017	2018	2017
\$33.87	407,560	407,560	0.25	0.56	-	407,560
\$26.79	45,000	45,000	0.30	1.05	45,000	45,000
\$31.15	193,739	193,739	0.59	1.59	193,739	145,304
\$33.06	20,000	20,000	0.70	1.70	20,000	15,000
\$24.78	505,847	505,847	1.57	2.57	379,385	252,924
\$22.47	521,014	521,014	3.07	4.07	260,507	-
\$22.33	30,000	30,000	3.20	4.20	15,000	-
\$20.60	519,204	519,204	3.78	4.78	129,801	-
Total	2,242,364	2,242,364	2.05	2.96	1,043,432	865,788

9. Income taxes

The Corporation's consolidated statutory tax rate for the year ended December 31, 2018 was 26.64% (year ended December 31, 2017 – 26.32%). The change in the Corporation's consolidated statutory tax rate from 2017 was caused by income being allocated to different provinces than in the prior year. Income tax expense is calculated by using the combined federal and provincial and state statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

9. Income taxes (continued):

Income Tax Expense	2018	2017
Earnings before income taxes	\$ 81,079	\$ 22,155
Combined federal and provincial statutory income tax rate	26.64%	26.32%
Expected income tax provision	\$ 21,599	\$ 5,831
Rate differences of foreign jurisdictions	(9,685)	(249)
Impact of change in US federal tax rates	-	(5,975)
Non-taxable portion of capital gains	(478)	8,649
Non-deductible expense and other	883	2,620
Change in unrecognized deferred tax assets	5,599	
Prior period adjustment	(1,574)	(602)
Balance at December 31, 2018	\$ 16,344	\$ 10,274

Cash taxes paid during the year were \$10.5 million (of which \$2.6 million related to the gain on the redemption of the Agility units), in 2017 the Corporation paid \$26.6 million (which included \$16.0 million of cash taxes related to the gain on redemption of Sequel units).

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

Deferred income tax assets (liabilities):	2018	2017
Share issue costs	401	1,035
Intangible assets	-	(1,681)
Investment tax credits	(797)	(1,500)
Preferred partnership units	(7,854)	(8,523)
Partnership deferral	-	6,061
Investment in sub or other items	1,113	689
Derivatives	(3,207)	(1,626)
Foreign exchange on loan receivable	(651)	(205)
Foreign exchange on loan payable	1,205	
Distributions to be taxed in future years	(2,521)	(2,442)
Bad debt	1,130	
Valuation allowance	(5,599)	-
Balance at December 31, 2018	\$ (16,780)	\$ (8,192)

As at December 31, 2018, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2018
2022	\$ 309
2023	1,841
2024	648
Balance at December 31, 2018	\$ 2,798

9. Income taxes (continued):

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at December 31, 2016	\$ (22,458)
Recognized in profit and loss	11,815
Reduction to investment tax credit	1,898
Recognized directly in equity	-
Recognized in other comprehensive income	(984)
Currency translation and other	1,537
Balance at December 31, 2017	(8,192)
Recognized in profit and loss	(6,713)
Reduction to investment tax credit	159
Recognized directly in equity	-
Recognized in other comprehensive income	-
Currency translation and other	(1,110)
Balance at December 31, 2018	\$ (15,856)

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation year ended December 30, 2009 through December 30, 2017 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately \$121.2 million of non-capital losses and utilization of \$7.9 million in investment tax credits ("ITC's") by the Corporation was denied, resulting in reassessed taxes and interest of approximately \$47.7 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of \$20.2 million in deposits to the CRA relating to the Reassessments to date. It is possible that the Corporation may be reassessed with respect to the deduction of its tax pools in respect of its tax filings in respect of the 2018 taxation years, thereby disallowing ITC's of \$0.2 million, on the same basis. The carrying values of the remaining ITC's of \$2.8 million at December 31, 2018 are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

The Corporation firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest. The Corporation will continue to file its tax returns by claiming the remaining available investment tax credits in subsequent tax filings. As at December 31, 2018, the CRA has denied the following tax claims and assessed the related taxes and interest:

9. Income taxes (continued):

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		\$ 10,532	\$ 4,475
December 2009		1,916	764
December 2010		14,646	5,598
December 2011		14,992	5,215
December 2012		16,774	4,561
December 2013		22,642	6,644
December 2014		29,153	8,751
December 2015	2,315	10,560	4,937
December 2016	2,905	-	4,979
December 2017	1,618	-	1,781
Balance at December 31, 2018	\$ 6,838	\$ 121,215	\$ 47,705

The comparative period deferred tax balances have been reclassified to conform to the current period presentation. The Corporation previously reported a net deferred tax liability of \$8.2 million. This amount has been presented in these financial statements in the comparative period as a deferred tax asset of \$5.4 million and a deferred tax liability of \$13.6 million.

10. Fair Value of Financial Instruments

The table below analyzes financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following items shown on the consolidated statement of financial position as at December 31, 2018 and December 31, 2017, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the year ended December 31, 2018.

Fair value classification (\$ thousands)	Level 1	Level 2	Level 3	Total
31-Dec-18				
Foreign exchange contracts	\$ -	\$ (1,333)	\$ -	\$ (1,333)
Investments	-	-	790,175	790,175
Total at December 31, 2018	\$ -	\$ (1,333)	\$ 790,175	\$ 788,842
31-Dec-17				
Foreign exchange contracts	\$ -	\$ 1,430	\$ -	\$ 1,430
Investments	-	-	669,216	669,216
Total at December 31, 2017	\$ -	\$ 1,430	\$ 669,216	\$ 670,646

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 60% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US\$25.4 million as at December 31, 2018 (US\$33.6 million as of December 31, 2017).

11. Commitments

The Corporation has annual commitments under its current office lease of \$0.6 million and a US\$45.0 million commitment to Body Contour Centers (“BCC”) to fund additional contributions when specified financial metrics are achieved (refer to note 5 for additional disclosure).

Commitments (\$ thousands)	31-Dec-18
2019	\$ 34,540
2020	27,502
Total Commitments	\$ 62,041

12. Related Parties

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Due to restrictions under the Option and RSU plans no Options or RSUs were granted to key management personnel during the year ended December 31, 2018. Key management personnel compensation comprised the following:

Key Management Personnel (\$ thousands)	2018	2017
Base salaries and benefits	\$ 892	\$ 854
Bonus	920	407
Non cash stock-based compensation	-	2,033
Total for year ended December 31	\$ 1,812	\$ 3,294

13. Subsequent Events

Accscient Additional Contribution

On January 8, 2019 the Corporation contributed an additional US\$8.0 million into Accscient, in exchange for incremental annual distributions of US\$1.1 million. This was the fourth additional contribution into Accscient bringing the total contributed capital to US\$38.0 million and annualized distributions to US\$5.6 million. The proceeds were used to partially fund an acquisition in their related industry.

Sandbox Additional Contribution

On February 22, 2019, the Corporation contributed an additional US\$5.0 million into Sandbox, in exchange for incremental distributions of US\$0.8 million. The fourth additional contribution into Sandbox has a minimum repurchase premium of US\$1.0 million and may include a percentage of common equity upon redemption. The proceeds were used to fund working capital.



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Additional information relating to the Corporation, including all public filings, is available on SEDAR (www.sedar.com)