

**Alaris Royalty Corp.**  
**Management's Discussion & Analysis**  
**May 4, 2009**

This management's discussion and analysis (MD&A) should be read in conjunction with the unaudited financial statements for Alaris Royalty Corp., formerly 6550568 Canada Inc. ("Alaris" or the "Corporation") for the three months ended March 31, 2009 and March 31, 2008 and the annual audited financial statements of Alaris Royalty Corp for the year ended December 31, 2008. The financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). 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 "Risk Factors". This MD&A also refers to certain non-GAAP measures, including EBITDA and normalized EBITDA, to assist in assessing the Corporation's financial performance. The terms EBITDA and normalized EBITDA (collectively the "**Non-GAAP Measures**") are financial measures used in this MD&A that are not standard measures under GAAP. The Corporation's method of calculating Non-GAAP Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-GAAP 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 net income (loss).

**EBITDA** refers to net earnings (loss) determined in accordance with GAAP, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine 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. Items include expenses incurred in connection with the Acquisition and include non-cash stock option and other transaction related costs.

The Corporation has provided a reconciliation of net income (loss) to EBITDA and Normalized EBITDA in this MD&A. These Non-GAAP measures should only be used in conjunction with the Corporation's annual audited and quarterly financial statements, excerpts of which are available below, while complete versions are available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Overview

On July 31, 2008, Alaris completed the acquisition (the “**Acquisition**”) of Alaris Income Growth Fund L.P. (“**Alaris L.P.**”), a partnership that was indirectly owned by Alaris Income Growth Fund (the “**Fund**”) and management. Alaris has continued the business and operations of Alaris L.P. For accounting purposes, the acquisition has been accounted for as a reverse take-over with Alaris L.P. being considered the acquiring entity.

Immediately prior to the closing of the Acquisition, Alaris satisfied the release conditions of its previously completed subscription receipt financing and issued an aggregate of 4,607,213 common shares (on a post consolidation basis) to the former holders of subscription receipts in accordance with the terms of the subscription receipts. The subscription receipts had been issued at price of \$12 per subscription receipt for aggregate gross proceeds of \$55,286,556 before share issue costs of \$3,622,225.

The Corporation earns its revenues by investing capital in private businesses (individually, a “**Private Company Partner**” and collectively the “**Partners**”). The Corporation’s revenue consists of royalties and preferred 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 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 seven employees. Interest costs have historically been significant, as the Corporation’s transactions were initially funded entirely by debt until the changes to the capital structure on July 31, 2008 resulting from the Acquisition and the subscription receipt financing.

## Results of Operations

### *Three Months Ended March 31, 2009 Compared to Three Months Ended March 31, 2008*

Revenues for the three months ended March 31, 2009 reflect full royalties and distributions from transactions involving each of the four Partners. In the period, revenues from the Partners totaled \$4,598,615 and were received from LifeMark Health (\$1,971,441), Lower Mainland Steel (\$1,910,265), End of the Roll (\$419,615) and MEDiChair (\$297,294). In the three months ended March 31, 2008, revenues from the Partners were \$4,680,825 and were received from LifeMark Health (\$1,866,366), Lower Mainland Steel (\$2,124,990), End of the Roll (\$401,737) and MEDiChair (\$287,732). The differences over the prior period are due to increases and decreases in the performance metrics that the revenue streams are adjusted for annually. LifeMark same clinic sales were up 5.6% effective January 1, 2009, MEDiChair’s same store sales increased 4% effective October 1, 2008, End of the Roll’s same store sales increased 4.5% effective May 1, 2008 and LMS’ gross profit declined by 23% effective January 1, 2009.

Interest expense of \$575,479 was significantly lower in the first quarter of 2009 compared to \$3,383,815 in the first quarter of 2008 because of a change in capital structure. From January to July 2008, Alaris L.P.'s then largest unitholder provided a \$90 million subordinated debt facility at 13% per annum interest. The \$90 million of subordinated debt was reduced to \$6.5 million on July 31, 2008 as part of the Acquisition of Alaris L.P and utilizing the equity funds raised in July 2008, significantly reducing the debt levels of the Corporation for the remainder of 2008 and the first quarter of 2009.

In the first quarter, the Corporation recorded \$441,044 in non-cash stock based compensation expenses in 2008 that included \$17,316 to recognize the fair value of outstanding stock options; \$379,400 to amortize the first quarter portion of the fair value of the Restricted Share Unit Plan ("RSU Plan"); and \$44,328 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan. Also in the first quarter, the Corporation made cash payments of \$73,341 to employees and directors in lieu of dividends under the RSU Plan. There were no stock based compensation expenses in the three months ended March 31, 2008.

Legal and accounting expenses were \$137,272 for the three months ended March 31, 2009 compared to only \$11,365 for the same period in 2008. As a private company in the first quarter of 2008, there was no quarterly review from an accounting firm nor any significant legal fees. In 2009, there were special engagements around IFRS preparation and internal control evaluations as well as a quarterly review. Legal fees include securities regulatory expenses around the preparation of the Corporation's Annual Information Form and an Information Circular.

Salaries and benefits were 10.2% lower (\$24,175) for the three months ended March 31, 2009 as the Corporation paid a one-month bonus to employees in March 2008 and no bonuses were paid in the three months ended March 31, 2009.

Amortization and depreciation include the amortization of the Partners and the depreciation of capital assets. The Corporation amortizes its intangible assets over the term of the transaction and depreciates capital assets according to GAAP. The Corporation does not amortize preferred interests in limited partnerships. Since these transactions are treated as financial instruments, they are assessed for objective evidence of impairment at each balance sheet date. The Corporation recorded depreciation of \$14,629 and amortization of \$43,308 in the three months ended March 31, 2009, similar to amounts recorded in the first quarter of 2008.

The Corporation recorded net income of \$2.9 million, EBITDA of \$3.6 million for the three months ended March 31, 2009 compared to \$0.9 million of net income and \$4.4 million of EBITDA for the three months ended March 31, 2008. The increase in net income is almost entirely attributable to the decreased interest costs resulting from the repayment of \$83.5 million in subordinated debt in July of 2008. The decline in EBITDA is a result of increased administrative costs that come from being a public company and the net impact of performance metric adjustments to the annual royalties and distributions from the Partners. Additionally, there were \$441,044 in non-cash stock based compensation expenses included in 2009 that were not present in the first quarter of 2008.

<b>Reconciliation of Net Income to EBITDA (thousands)</b>	<b>3 months ending March 31, 2009</b>	<b>3 months ending March 31, 2008</b>
Net Income (Loss)	\$2,896	\$915
Adjustments to Net Income:		
Amortization	58	58
Interest	575	3,384
Income tax expense	54	-
<b>EBITDA</b>	<b>\$3,583</b>	<b>\$4,357</b>

Effective July 31, 2008, Alaris began paying monthly dividends. Dividends were declared for January and February 2009 at \$0.12 per common share (voting and non-voting) and for March 2009 at \$0.07 per share (see Outlook section on page 7) totalling \$2,828,524 for the quarter. Prior to the Acquisition and in the first quarter of 2008, Alaris L.P. paid \$0.54 per unit in distributions (\$810,000) to its unitholders.

Cash held at March 31, 2009 of \$1.7 million was to satisfy the dividend declared in March 2009 (payable April 15<sup>th</sup>, 2009) and trade payables leaving cash after these payments of approximately \$600,000.

Shareholders' capital includes the net proceeds from the \$55 million raised in the private placement that closed July 31, 2008, \$8 million of non-voting common shares owned by management as a result of options exercised on July 31, 2008 and \$32 million of subordinated debt that was purchased for voting common shares at the private placement issue price of \$12.00 per share also on July 31, 2008.

The Corporation has a \$25 million senior debt facility with a two-member Canadian bank syndicate, which was drawn to \$24.7 million at March 31, 2009. Interest is paid monthly at the lenders' prime rate plus three percent per annum (5.5% at March 31, 2009). At March 31, 2009, the Corporation also had a \$6.5 million demand subordinated debt facility from a company owned by the Corporation's largest shareholder. Interest is paid monthly at 13% per annum.

The Corporation has recorded a \$25 million future income tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections. An offsetting liability has been recorded as a deferred charge for the amount of the tax asset less the fair value of the shares held by the shareholders of the Corporation prior to the July 31, 2008 transaction.

Corporate and office expenses were \$74,957 higher compared to the prior year period and include office rent, travel and corporate administrative expenses. Corporate administrative expenses increased significantly in the first quarter of 2009 compared to the first quarter of 2008 due to new public company costs that include securities regulatory expenses and transfer agent fees.

## Liquidity and Capital Resources

The Corporation has an almost fully-drawn \$25 million senior credit facility (\$24.7 million at March 31, 2009) provided by two Canadian chartered banks and a \$6.5 million subordinated debt demand facility provided by a company owned by the Corporation's largest shareholder (see "Transactions with Related Parties"). The senior facility was renewed on December 20, 2008 and the variable interest rate was increased by 1% per annum to the Canadian prime interest rate plus 3% as a result of current economic conditions. The senior credit facility is a 364-day revolving loan that is due December 19, 2009. The facility carries a three-year term out option in the event the loan is not renewed. Therefore at March 31, 2009, \$2.1 million of the facility is shown as a current liability in the financial statements reflecting three months of potential principal repayments which will be required in the next 12 months, should the facility not be renewed. At March 31, 2009, the Corporation met all of its covenants as required by the senior credit facility.

The Corporation has 9.126 million common shares outstanding at March 31, 2009 including the voting common shares issued pursuant to a private placement that closed on July 31, 2008, which raised \$55 million in equity priced at \$12 per share. The net proceeds of the private placement (\$51.5 million), as well as the issue of voting common shares of the Corporation (valued at \$32 million) were used to pay down the subordinated debt facility to \$6.5 million. The Corporation had working capital of approximately \$600,000 at March 31, 2009, which is sufficient for the Corporation's needs.

## Internal Controls over Financial Reporting

There are no changes in internal controls over financial reporting. A complete discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited financial statements for the years ended December 31, 2008 and December 31, 2007.

## Summary of Contractual Obligations

Other than the credit facilities described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its lease for office space. The Corporation's lease on its current location expires in June 2009 and on March 25, 2009, the Corporation agreed to a new seven-year lease at a new location commencing July 2009. Annual lease payments are currently \$90,000 and the new location annual leasing costs will be approximately \$130,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	0	0	0	0	0
Office lease	946,491	86,747	388,168	269,472	202,104
Other long-term obligations	0	0	0	0	0
Total Contractual Obligations	946,491	86,747	388,168	269,472	202,104

## Transactions with Related Parties

In December 2007, Alaris L.P. borrowed \$90 million from a company owned by Mr. Clay Riddell, its then largest unitholder. The loan included a fee of \$1.5 million (1.67%) and the annual interest rate is fixed at 13%. On July 31, 2008, the Corporation used proceeds from the transaction described in the “Overview” section of this MD&A to reduce the outstanding debt to this company to \$6.5 million. For the three months ended March 31, 2009, the Corporation paid interest of \$208,356 to this company (2008 - \$2,909,016).

## Critical Accounting Estimates and Policies

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

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

## New Accounting Policies

Effective January 1, 2009, the Corporation adopted CICA section 3064 Goodwill and Intangible Assets. The implementation of this standard did not have a material effect on the Company's financial statements.

## Summary of Quarterly Results

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

	Q1-09	Q4-08	Q3-08	Q2-08	Q1-08	Q4-07	Q3-07	Q2-07
Revenue	4,600	4,779	4,825	4,744	4,682	2,901	2,418	2,832
Income (loss) from operations	2897	2,491	(7,355)	896	915	(1,722)	785	1,099
Basic and Diluted Income (loss) per Share/Unit	\$0.32 Dil \$0.30	\$0.27 Dil \$0.26	(\$1.12)	\$0.60	\$0.61	(\$1.15)	\$0.52	\$0.73

The loss for the three months ended September 30, 2008 was due to \$10 million in accounting entries booked as a result of the transaction described in the “Overview” section. Net income per share was \$0.40 before those accounting adjustments.

The loss for the three months ended December 31, 2007 was due to a \$1.5 million loan fee paid on the subordinated debt facility as well as significant legal expenses incurred relating to a potential transaction with a private equity firm that was never completed.

### **Outstanding Shares**

At March 31, 2009, the Corporation had 8,459,502 voting and 666,665 non-voting common shares issued and outstanding (9,126,167 in aggregate) and at April 30, 2009, the Corporation had 8,460,337 voting and 666,665 non-voting common shares issued and outstanding (9,127,002 in aggregate). Under the RSU Plan, the Corporation issued 4,287 voting common shares from treasury in the quarter and has issued 835 voting common shares from treasury subsequent to March 31, 2009. At March 31, 2009, 379,400 restricted share units and 224,150 stock options were outstanding under the Corporation's long-term incentive compensation plans.

### **Outlook**

Alaris' agreements with the Partners provide for payments estimated to provide the Corporation approximately \$17.7 million of revenues in 2009. General and administrative expenses have increased as a result of additional public company costs and are currently estimated at \$2.2 million annually. The senior debt facility is almost fully drawn to \$25 million and the annual interest rate on that debt is 5.5% at March 31, 2009. \$6.5 million of demand, subordinated debt is outstanding with an annual interest rate of 13%. Cash requirements after net income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment.

Alaris' revenue outlook for 2009 includes a drop in revenues from current operations of approximately 7.5% due to a decline in 2009 distributions from Lower Mainland Steel ("LMS"), partially offset by increases in the other three revenue streams. LMS experienced a dramatic shift in their business late in their fiscal 2008 year that included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was LMS incurring material bad debt expenses for the first time in their operating history that decreased their reported gross profit. Beyond LMS, the other three Partners continue to perform well, even in these difficult times and in fact the Corporation will receive increased contributions from each of them compared to 2008 as a result of a 5.6% increase in same clinic sales for LifeMark and a 4.0% increase in same store sales for MEDIchair. The End of the Roll annual royalty resets on May 1, 2009 coinciding with its fiscal year-end.

For 2010, the Corporation again expects increases in its royalties and distributions in line with historical performance from each of Life Mark Health, MEDIchair and End of the Roll. However, LMS will see a significant drop in gross profit compared to the previous year. The decline is based on both reduced volumes caused by the economic environment and credit crisis as well as by temporarily depressed margins that were caused by high priced inventory that resulted from cancelled projects. A return to more normal margins is expected to occur in the near term. The net result of these two factors on LMS' operations will be a possible decline in

gross profits of as much as 80% on their September 30, 2009 results which will result in a decrease to LMS' distributions to Alaris in 2010.

While results for LMS in 2009 are being conservatively forecast to account for the current economic conditions, the longer-term outlook for LMS is more positive. LMS is expected to benefit from the British Columbia provincial government's recent budget that included an announcement of \$14 billion of new infrastructure projects to be completed over the next three years. With a significant share of the rebar installation market in lower mainland B.C., Lower Mainland Steel is ideally situated to recover in the coming years. As a result, it is the view of the Corporation's management that there has been no objective evidence of impairment on the value of the transaction with Lower Mainland Steel.

Given the current economic conditions, the Board of Directors of Alaris determined to reduce the Company's monthly dividend to \$0.07 per common share from \$0.12 per common share, beginning with the March 2009 monthly dividend. This decision will preserve approximately \$4.5 million in 2009, which will predominantly be used to reduce senior debt.

The Corporation plans to continue to seek out and enter into transactions accretive to the Corporation's earnings per share in the current Partners and other private businesses.

### **Risks and Uncertainty**

A complete discussion of the risks faced by the Corporation can be found under the MD&A that accompany the audited financial statements for the years ended December 31, 2008 and December 31, 2007.

### **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 revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses. 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. 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. Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris L.P.; 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 L.P. of substantially all of its operating cash flow; income tax related risks; future sales of common shares by significant shareholders; ability to recover from the Partners for defaults under the various agreements with Alaris L.P.; potential conflicts of interest; dilution; and liquidity of Common Shares. The information contained in this MD&A, including the information set forth under "Risk Factors", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

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

### **Additional Information**

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is available on SEDAR at [www.sedar.com](http://www.sedar.com).