ALARIS
ROYALTY CORP.

MANAGEMENT DISCUSSION AND ANALYSIS

For the three months ending March 31, 2016

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the unaudited condensed consolidated financial statements for the three months ended March 31, 2016 and March 31, 2015 for Alaris Royalty Corp. ("**Alaris**" or the "**Corporation**"). The Corporation's unaudited condensed consolidated financial statements and the notes thereto have been prepared in accordance with International Accounting Standard 34 - "Interim Financial Reporting" and are recorded in Canadian dollars. These financial statements do not contain all disclosure required by IFRS for annual financial statements and, accordingly, should also be read in conjunction with the most recently prepared annual consolidated financial statements for the year ended December 31, 2015, which have been prepared in accordance with International Financial Reporting Standards. Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

This MD&A contains forward-looking statements that are not historical in nature and involve risks and uncertainties. Forward-looking statements are not guarantees as to the Corporation's future results since there are inherent difficulties in predicting future results. Accordingly, actual results could differ materially from those expressed or implied in the forward-looking statements. See "Forward Looking Statements" for a discussion of the risks, uncertainties and assumptions relating to those statements. Some of the factors that could cause results or events to differ from current expectations include, but are not limited to, the factors described under "Risks and Uncertainty". This MD&A also refers to certain non-IFRS measures, including EBITDA, Normalized EBITDA, Earnings Coverage Ratio, Contracted EBITDA, Annualized Payout Ratio, 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, Annualized Payout 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.

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 period ended March 31, 2016, the gain on the redemption of the LifeMark and Killick units, and the unrealized foreign exchange gains and losses are considered by management to be non-recurring charges. Adjusting for these non-recurring items allows management to assess EBITDA from ongoing operations.

Earnings Coverage Ratio refers to EBITDA of a Partner (as defined below) divided by such Partner's sum of debt servicing (interest and principal), unfunded maintenance capital expenditures and distributions to Alaris.

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 divided by the sum of capital expenditures, interest, current income taxes and dividends.

Contracted EBITDA refers to EBITDA for the previous twelve months excluding proceeds from any disposition of investments but including all projected contracted payments from new investments for the twelve-month period following the investment date.

Annualized Payout Ratio: Annualized payout ratio refers to Alaris' total annualized 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).

Tangible Net Worth refers to the sum of shareholders' equity.

The Non-IFRS measures should only be used in conjunction with the Corporation's annual audited statements, excerpts of which are available below, while complete versions are available on SEDAR at www.sedar.com.

OVERVIEW

The Corporation earns its revenues by providing capital to private businesses (individually, a "**Private Company Partner**" and collectively the "**Partners**") 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

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

	3 months ending March 31		
	2016	**2015**	**% Change**
Revenue per share	$0.68	$0.59	+15.3%
Normalized EBITDA per share	$0.55	$0.50	+10.0%
Net cash from operating activities per share	$0.39	$0.36	+8.3%
Dividends per share	$0.405	$0.375	+8.0%
Weighted average basic shares outstanding (000's)	36,303	32,155	

2016 is off to a strong start with two new Partners in Sandbox Acquisitions, LLC and Sandbox Advertising, LP (collectively "Sandbox" - $22 million USD) and M-Rhino Holdings, LLC, operating as Providence Industries ("Providence" - $30 million USD, closed subsequent to period end, April 1, 2016) and two follow on contributions to current Partners: $4.35 million USD to an affiliate of LMS Limited Partnership ("LMS") and $6.5 million USD to a subsidiary of Federal Resources Supply Company (closed subsequent to period end, April 29, 2016). Alaris continues to experience increases in its four key performance metrics of revenue, Normalized EBITDA, dividends, and net cash from operating activities on a per share basis in the three months ended March 31, 2016 (the Corporation used Normalized EBITDA rather than EBITDA to back out the non-cash foreign exchange gains and losses, as well as gains and losses on the redemption or sale of the Corporation`s financial interest in partners no longer with Alaris). These increases are a direct result of the continued execution of our business plan to fund well run, successful new private businesses with a long track record of sustainable cash flow. Net cash from operating activities per share is just below dividends paid per share due to $3.8 million CAD in taxes paid upon filing US tax returns, unique to the current period.

The Corporation has deployed over $250 million in the last twelve months through contributions to five new Partners; Sandbox, Providence (closed subsequent to period end, April 1, 2016), DNT Construction, LLC ("DNT"), Federal Resources Supply Company ("Federal Resources") and MAHC Holdings, LLC ("MAHC") as well as follow on investments into four current Partners: PF Growth Partners, LLC ("Planet Fitness"), Kimco Holdings, LLC ("Kimco"), LMS and Federal Resources (closed April 29, 2016). Due to the accretive nature of each of these transactions as well as steady existing cash flows, Alaris increased its monthly dividend twice in the last twelve months. The Corporation also experienced organic growth from its Partners with weighted average net annual performance metric resets increasing by an estimated 2.1%, which resulted in increases to our existing revenue base for 2016.

Revenues from Partners for the three months ended March 31, 2016 totaled $24.6 million compared to $19.0 million in the three months ended March 31, 2015. The increase of 29.2% compared to the prior period is a result of the addition of new Partners and follow on contributions with current Partners as well as year over year performance metric adjustments from each of the Partners as described below, with an offset for redemptions by Partners in January 2015 (Killick) and March 2016 (LifeMark). See "Private Company Partner Update" for more information on the individual Partners' performance.

Partner Revenue (000's)	3 months ending Mar 31, 2016	3 months ending Mar 31, 2015	% Change	Comment
Sequel	$4,056	$3,489	16.3%	Same clinic sales +5% July 1/15, further contribution late 2014, strengthening USD
DNT	3,608	-	100.0%	Contribution closed June 2015
Federal Resources	2,429	-	100.0%	Contribution closed June 2015
Planet Fitness	2,138	1,629	31.3%	Contribution closed in November 2014, additional $5M contribution late 2015
Solowave	1,720	1,623	6.0%	+6% same customer sales increase Jan 1/16 due to strength in US and Int'l market
Kimco	1,654	1,450	14.0%	Gross revenue -6% Jan 1/16, offset by strengthening USD, $3M contribution late 2015
SMi	1,594	1,719	-7.3%	Revenue reset estimate -6% Jan 1/16
SCR	1,504	1,600	-6.0%	-6% due to lower gross revenue, reduced mining activity due to commodity prices
Labstat	1,375	1,500	-8.3%	Smaller cash flow sweep accrued in Q1 2016
LMS	1,087	999	8.8%	Additional contribution of $4.35M USD in March
Agility Health	1,059	986	7.3%	Same clinic sales -2.0% offset by strengthening USD
LifeMark	730	1,029	-29.0%	Redemption March 2016
MAHC	685	-	100.0%	Contribution closed December 2015
End of the Roll	344	330	4.3%	+4.3% same store sales increase May 1/15
Sandbox	270	-	100.0%	Contribution closed March 2016
Killick	-	538	-100.0%	Redeemed in Jan 2015
KMH	-	1,890	-100.0%	Nothing accrued since April 1/15, undergoing strategic process
Subtotal	**$24,253**	**$18,782**	29.1%	
Interest	313	237	32.2%	Interest on promissory notes, SMi increased notional outstanding
Total	**$24,567**	**$19,019**	**29.2%**	

Finance costs of $1,516,730 in the period were 93% higher compared to $784,379 in the prior year period and includes the annual renewal fee which was $538,750 in 2016 compared to $537,500 in 2015. The renewal rate decreased but the facility increased to $200 million resulting in a small increase in the gross renewal fee. In the first quarter of 2016, the Corporation started with $77.5 million of debt increasing to $115.6 million as contributions to Sandbox ($22 million USD) and Providence ($30 million USD) were partially offset by the repayment of the LifeMark redemption proceeds ($22 million CAD). Interest expense was $977,980 in the quarter compared to $246,879 in the same period in 2015 due to the higher debt levels.

Salaries and benefits were $565,248 in the quarter, up 12.2% compared to the prior year period due to two new positions added in July 2015 and another in February 2016.

In the three months ending March 31, 2016 the Corporation recorded non-cash stock based compensation expenses totaling $1,100,517 (2015 – $1,329,335) which included: $685,475 to amortize the fair value of the Corporation's restricted share unit plan (the "RSU Plan") (2015 –$797,882) and $415,042 to recognize the fair value of outstanding stock options (2015 – $531,453). The change in non-cash stock based compensation expenses compared to the prior period was due to the retirement of one member of the management team in June 2015 resulting in the cancellation of outstanding Options and RSUs.

Corporate and office expenses were $945,976 compared to $778,110 in the prior year and include office rent, travel and corporate administrative expenses. The 21.6% increase was due to an increase in TSX fees, overall increase in office expenses at the new head office location, and increase in staffing.

Legal and accounting expenses were $806,992 for the three months ended March 31, 2016, compared with $304,536 in the prior year period, an increase of 165% as significant professional fees were incurred in the quarter relating to the review and monitoring of the KMH strategic process to protect the remaining value of the preferred units.

The Corporation recorded earnings of $20.8 million, EBITDA of $27.8 million and Normalized EBITDA of $19.8 million for the three months ended March 31, 2016 compared to earnings of $21.8 million, EBITDA of $27.6 million and Normalized EBITDA of $16.1 million for the three months ended March 31, 2015. The increase in earnings and EBITDA can be attributed to the addition of five new Partners in the last twelve months and follow on contributions to three Partners, partially offset by the redemption for LifeMark (March 2016).

Reconciliation of Net Income to EBITDA (thousands)	**3 months ending March 31, 2016**	**3 months ending March 31,2015**
Earnings	20,842	21,803
Adjustments to Net Income:		
Amortization and depreciation	69	29
Finance costs	1,517	784
Income tax expense	5,330	4,997
EBITDA	**27,758**	**27,613**
Normalizing Adjustments		
Gain on disposal of investment	(18,566)	(2,792)
Unrealized foreign exchange loss/(gain)	10,615	(8,718)
Normalized EBITDA	**19,807**	**16,103**

The Corporation recorded a realized loss on foreign exchange contracts of $1,340,278 in the three months ended March 31, 2016 compared to a loss of $723,993 as the volume of forward contracts was higher compared to the prior year period. The Corporation recorded an unrealized gain of $3,870,701 in the three months ended March 31, 2016 compared to an unrealized loss of $1,324,254 in the prior year period as the spot price of the USD declined in the three months ending March 31, 2016 getting closer to the average forward contract currently in place resulting in a gain in the current period. The Corporation also recorded an unrealized non-cash foreign exchange loss of $14,485,640 in the three months ended March 31, 2016 compared to a non-cash gain of $10,766,315 in the prior year period. The significant decrease is due to the impact of the change in the US exchange rate from December 31, 2015 to March 31, 2016 on the USD loan to the Corporation's wholly-owned subsidiary.

For the three months ending March 31, 2016, dividends were declared of $0.135 per month for a total of $0.405 per share and $14,702,608 in aggregate. In the prior year period, dividends were declared totalling $0.375 per share and $12,605,971 in aggregate.

A portion of the $55.6 million of cash held at March 31, 2016 was used to satisfy the dividend declared in March 2016 (payable April 15, 2016) and to fund the investment in Providence ($30 million USD) which closed April 1, 2016.

The Corporation has a $200 million, interest-only senior debt facility with a five-member Canadian bank syndicate, which has $115.4 million drawn at March 31, 2016. Interest is paid monthly at the lenders' prime rate plus 2.25 percent per annum (4.95% at March 31, 2016). There is a $50 million accordion feature available on the facility as well.

The Corporation has recorded a $19.1 million deferred tax liability on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections.

PRIVATE COMPANY PARTNER UPDATE

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

For the revenues received in USD, the Corporation has purchased monthly forward contracts locking in the foreign exchange rate for the next twelve months and approximately 50-70% the following twelve months.

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. Because this information from time to time is based on unaudited information provided by Private Partner Company management, each Earnings Coverage Ratio, 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 1.5x, 1.5x to 2.0x and greater than 2.0x. A result greater than 1 is considered appropriate and the higher the number is, the better the ratio.

Additionally, at the header for each Partner, the Corporation has disclosed the percentage of current annualized revenue based on the expected distributions from each Partner for 2016 based on information at May 10, 2016. Interest from promissory notes is 1.0% of total revenue from Partners.

LifeMark/Centric ***0.0% of revenue***

During the three months ended March 31, 2016, the Corporation exited the LifeMark investment after eleven successful years as a Partner. Since December 31, 2004, on total capital contributions of $67.5 million, the Corporation received $77.2 million of distributions and sold its units for $123.4 million for total gross proceeds of $200.6 million.

LMS ***4.8% of revenue***

The Corporation's original contribution into LMS was in 2007 pursuant to which it has since contributed a total of $54 million. The Corporation completed a follow on contribution (to a U.S. affiliate) of $4.35 million USD to help LMS fund an acquisition in a new market where they have similar customers. Total gross profit is the top-line performance metric on which the annual distributions to the Corporation are reset. A portion of the annual distributions from LMS reset on January 1st and the remainder on April 1st based on the December year end results from the previous year.

LMS is a western Canadian based (with operations now in Southern California) concrete reinforcing steel fabricator and installer. LMS has experienced strong volumes and work on hand across each of its residential, commercial and infrastructure business segments in British Columbia while some of the Alberta work has seen a decline. Margins have continuously improved over the last several years. The Company benefited from increased volume and consistent margins over the past few years, and based on work on hand, LMS management expects continued success throughout the 2016 fiscal year due to increased infrastructure spending in Alberta and British Columbia, and operating improvements in LMS' US facility.

Based on unaudited financial statements prepared by management for the two months ended February 29, 2016, revenue is modestly ahead of the prior year, while gross profit and EBITDA are modestly behind the prior year. Based on unaudited financial statements prepared by management for the year ended December 31, 2015, gross profit was approximately 4% behind the prior year. The Corporation was previously expecting a small increase to the annual distribution but adjustments in December resulted in a small decrease. The Corporation is awaiting audited results to confirm the reset.

The fair value of the Canadian LMS units remains at $33.0 million at March 31, 2016 while the US units are at $4.35 million USD at March 31, 2016. The Earnings Coverage Ratio for LMS remains in the 1.5x – 2.0x range and has improved slightly over the last quarter.

End of the Roll ***1.1% of revenue***

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

End of the Roll is a Canada-wide retail flooring franchise system and completed its eleventh fiscal year as an Alaris partner on April 30, 2016. The renovation industry has been relatively stable year over year and End of the Roll's results reflect that.

Based on unaudited financial statements prepared by management for the ten months ended February 29, 2016, revenue and EBITDA are approximately 5% ahead of the prior year.

The End of the Roll transaction is recorded as an intangible asset and is reviewed for impairment when triggers exist. No impairment triggers exist at this time. The Earnings Coverage Ratio for End of the Roll improved since the last quarter and continues to be well over 2.0x.

KMH ***0% of revenue***

Since 2010, the Corporation has acquired $54.8 million of preferred partnership units in KMH Limited Partnership ("KMH") in five separate contributions. Same clinic sales is the top-line performance metric on which the annual distributions to the Corporation are reset and tracks the organic growth of clinics open for at least two years.

KMH is a private healthcare company operating twelve diagnostic imaging clinics (nuclear medicine, cardiology and MRI) in Ontario and eight clinics in the United States.

Based on unaudited internal financial statements provided by KMH's management for the two months ended February 29, 2016, revenues and EBITDA are both over 10% ahead of the prior year. The Earnings Coverage Ratio for KMH is below 1.0x if all distributions currently owed to the Corporation are included but none have been paid since March 2015.

KMH ceased paying regular distributions to the Corporation in November 2014. At March 31, 2016, the only amount included in receivables from KMH include accrued interest on the promissory note of $0.8 million. The $3.5 million promissory note is also outstanding at March 31, 2016.

Alaris has been working with stakeholders of KMH to find a viable solution to recapitalize the business. A strategic process has been ongoing and resulted in a number of different options which would provide Alaris with a meaningful value for its units in KMH. The strategic process has taken longer than anticipated and during the last quarter of 2015, the Corporation formally gave KMH notice of default and demanded that KMH repurchase the preferred units and repay the outstanding promissory notes and accrued interest. As mentioned last period, KMH and Alaris have reached an agreement in principle on a transaction that would see Alaris receive approximately $35 million in value for its preferred units consisting of between $15 and $20 million in cash and the remainder in a note payable or some other form of negotiated future compensation. Subject to negotiation, the amounts and mix of cash and notes payable could change. The Corporation has seen progress on the contemplated transaction and is seeking to finalize this arrangement as soon as commercially possible. Alaris did not accrue any revenue from KMH in the last three quarters of 2015 and does not expect to accrue any additional revenue until the process is complete.

The fair value of the KMH units is consistent with the prior quarter at $35 million at March 31, 2016. In the absence of regular cash distributions to support a discounted cash flow valuation, the Corporation has used a liquidation value supported by third party valuations received during the strategic process to approximate the current valuation.

Solowave ***6.7% of revenue***

In December 2010, the Corporation purchased preferred partnership units in Solowave Design Limited Partnership ("Solowave") for an aggregate acquisition cost of $32.5 million. In November 2014, the Corporation purchased additional preferred units for $10 million. The annual distributions fluctuate based on same customer net sales and both growth and declines are capped at 6% per year.

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

Based on unaudited information provided by management for the four months ended February 29, 2016, revenues and EBITDA were both over 20% ahead of the prior year. The audited increase in same customer net sales for 2015 was well in excess of the maximum 6.0% resulting in scheduled Solowave distributions of $6.9 million for 2016.

The fair value of the Solowave units remained at $50.5 million at March 31, 2016. The Earnings Coverage Ratio for Solowave improved since the last quarter and remains over 2.0x.

Labstat ***5.8% of revenue***

Since June 2012, the Corporation has purchased partnership units in Labstat International, ULC ("Labstat") for an aggregate acquisition cost of $47.2 million. Labstat is a global leader in regulation-driven analysis of tobacco smoke and products as well as deemed tobacco products such as electronic cigarettes. Annual growth and decline in Labstat's distributions to Alaris are capped at 6% and is based on the change in gross revenues.

In February 2014, Alaris agreed to temporarily restructure the form of its distributions, reducing the fixed portion to 7.25% on all preferred equity contributed with a variable portion in the form of a cash sweep up to the maximum that would have been paid under the original agreement provided certain financial covenants and performance targets continued to be met. This arrangement expires June 2017 after which the distributions will return to the regularly scheduled amounts. Labstat distributions totaled $5.57 million in 2015 consisting of $3.42 million in fixed monthly distributions and an additional $2.15 million based on the cash flow sweep. $450,000 of the sweep was received in January 2016 and the remainder was received in April 2016. The accrual for the cash flow sweep in the first quarter of 2016 is based on the 2015 total.

Fixed distributions of $3.42 million are scheduled again for 2016. Based on unaudited financial statements prepared by management for the two months ended February 29, 2016, revenue and EBITDA are more than 10% ahead of the prior year and better than the unaudited internally prepared budget. The Corporation expects total distributions from Labstat of approximately $6 million for 2016, up to a maximum of $7.49 million with the cash flow sweep based on the maximum 6% increase to the annual distributions based on the 2015 financial results.

The Earnings Coverage Ratio has improved since last quarter and continues to be in the 1.0x to 1.5x range. The fair value of the Labstat units remains at $47 million at March 31, 2016.

Agility ***3.9% of revenue***

Since December 2012, the Corporation has purchased preferred LLC units in Agility Health, LLC ("Agility") for an aggregate acquisition cost of $20.1 million USD. Annual growth and decline in Agility's distributions to Alaris is capped at 6% and is based on the change in same clinic sales.

Agility Health is a health care company specializing in providing physical and occupational therapy and speech pathology services to health care providers and employers through 37 hospital clinics, 34 long term care facilities and 70 outpatient clinics across the United States.

Based on unaudited statements provided by management for the two months ended February 29, 2016, revenue and EBITDA are marginally behind the prior year due to reductions in reimbursement rates for some services.

The fair value of the Agility units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Agility units is evaluated each quarter. The fair value of the Agility units remains at $20.0 million USD at March 31, 2016. The Earnings Coverage Ratio for Agility has declined slightly since last quarter and is still below 1.0x. Agility has notified the Corporation that it is evaluating alternatives to repurchase the preferred units and should that occur, the Corporation expects to receive at a minimum, the current fair value of the Agility units and any accrued and unpaid distributions up to the date of repurchase as per our agreement with Agility.

SCR ***5.8% of revenue***

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

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

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, SCR's revenue and EBITDA were both significantly behind prior year results due to one of SCR's larger customers changing mining techniques as well as a general slowdown in the Canadian mining sector. SCR management has been successful in replacing some of that business with current and new customers but the industry slowdown is impacting SCR's ability to generate new business. SCR has significant cash on its balance sheet, no debt and annual distributions are currently scheduled at $6.02 million for 2016 based on the maximum 6% decline in gross revenue. Distributions were paid in January through April 2016 as scheduled and are expected to continue in the coming months but the Corporation is working with SCR management on a long-term solution should the industry downturn continue for a considerable time.

The fair value of the SCR units remained at $33.0 million at March 31, 2016. The Earnings Coverage Ratio for SCR declined since the last quarter and remains below 1.0x.

Sequel ***14.7% of revenue***

Since July 2013, the Corporation has purchased preferred LLC units in Sequel Youth and Family Services, LLC ("Sequel") for an aggregate acquisition cost of $73.5 million USD. Annual growth or decline in Sequel's distributions to Alaris is capped at 5% and is based on same program sales.

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

Based on audited financial statements prepared by Sequel management, for the year ended June 30, 2015, same programs sales increased significantly more than the 5% maximum and distributions increased accordingly to $11.8 million USD for the twelve months ended June 30, 2016.

Based on unaudited information for the eight months ended February 29, 2016, revenues and EBITDA are both over 10% ahead of the prior year.

The fair value of the Sequel units remain at $78.5 million USD. The fair value of the Sequel units will also fluctuate each quarter with foreign exchange rates. The Earnings Coverage Ratio for Sequel has improved since last quarter and remains between 1.0x and 1.5x.

SMi ***6.5% of revenue***

Since November 2013, the Corporation has purchased partnership units in SM Group International, LP ("SMi") for an aggregate acquisition cost of $40.5 million. Annual growth or decline in SMi's distributions to Alaris is capped at 6% and is based on gross revenue. SMi is a privately owned company founded in 1972 which specializes in the delivery of integrated scientific, engineering and IT solutions dedicated to the areas of buildings, energy, energy efficiency, environment, industry, infrastructure, natural resources, power, security, telecommunications and materials testing.

Distributions are currently scheduled at a current annual run rate of $6.77 million. SMi reports to Alaris quarterly and based on unaudited financial statements provided by management for the year ended December 31, 2015, revenue was approximately 3% ahead and EBITDA over 20% ahead of the prior year. As previously disclosed, early in 2015 SM was dealing with cash constraints brought on by several factors, including the funding of a new business segment, declines in profit margin as well as costs associated with a lawsuit against an international customer, which resulted in increased legal expenses and a decrease to its international bonding capability. As a result, SMi was in breach of certain financial covenants and its senior lender suspended the monthly distribution to Alaris beginning in Q3 2015 and continuing today. A combination of a capital injection, improvements to the company's cost structure, the cessation of the majority of legal costs associated with the lawsuit as well as an expected improvement in credit capabilities are expected to improve SMI's cash flow position going forward.

The Corporation remains confident in the management team at SMi and the long-term prospects for the business remain positive. However, the business is currently constrained by a lack of bonding capabilities on international business while the lawsuit is ongoing as well as credit capacity issues on its revolving line of credit. Upon a successful settlement of the lawsuit as mentioned above, the Corporation expects collection of all outstanding distributions from 2015 and 2016 in fiscal 2016 and also expects the outstanding principal on the loans provided to SMi to be repaid in 2016. If the lawsuit is not settled in

SMi's favor, other alternatives will have to be utilized to address the cash constraints, such as replacing SMi's current lender or a full sale of the company. A resolution of the lawsuit will open up international bonding capabilities, regardless of the outcome.
Since June 2015, the Corporation has loaned $12.75 million out of a maximum $15 million demand facility as at March 31, 2016. Subsequent to March 31, 2016, another $2.25 million has been drawn for a total of $15 million at May 10, 2016.

The fair value of the SMi units remains at $42.6 million. The Earnings Coverage Ratio for SMi is below 1.0x when considering the distributions that should have been paid, consistent with the previous quarter.

Kimco — *6.4% of revenue*

In June 2014, the Corporation announced the purchase of preferred units in Kimco Holdings, LLC ("Kimco") for an aggregate acquisition cost of $29.2 million USD. The Corporation purchased additional preferred units in December 2015 for $3 million USD. Annual growth or decline in Kimco`s annualized distributions of $5.09 million USD to Alaris is capped at 6% and is based on gross revenue. Kimco has been providing commercial janitorial services since the 1970s. The majority of Kimco's services are generated under long-term contracts (generally 1-3 years) to more than 375 customers, which range in size from multi-location national customers to regional single-site customers.

Based on unaudited financial statements provided by management for the year ended December 31, 2015, Kimco's revenue and EBITDA were approximately 5% behind budget. In the first few months of 2015 there were operational cost increases from overtime incurred on a number of projects as well as lower than expected revenues. As disclosed previously, Kimco was facing cash constraints, which we felt were short-term in nature due to a weak start to 2015 in terms of revenue cost overruns. As a result of the slow start to 2015, Kimco was in breach of certain financial covenants with its senior lenders which resulted in the distribution to Alaris being temporarily suspended in July 2015. The Corporation now has a formal agreement in place with Kimco's senior lenders to temporarily amend the monthly distribution schedule. Beginning in 2016, once the trailing twelve month fixed charge coverage ratio exceeds a prescribed level, there will be a fixed distribution of approximately one quarter of the contractual distribution (USD$100,000 per month) and a quarterly cash flow sweep for the remaining distribution outstanding, subject to a defined fixed charge coverage ratio, that includes a catch up of distributions that were previously deferred by the Corporation. Kimco's results in the first two months of 2016, while profitable, were behind expectations so the $100,000 per month has not been paid as of the date hereof. However, based on the past nine months of operations and the forecast provided by management, the Corporation expects to receive at least $4.1 million of the $5.1 million distributions scheduled for 2016. If Kimco can beat its forecast, the Corporation would receive the remainder as well as beginning to catch up on unpaid distributions from 2015 (as well as any unpaid portion for 2016) on a quarterly basis. This expectation is based on current information Alaris has been provided by Kimco management and the expectations can be impacted by unexpected changes in the business throughout 2016.

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. The fair value of the Kimco units remains at $29.6 million USD. The Earnings Coverage Ratio for Kimco has improved since last quarter but remains just below 1.0x for the last twelve-month period as the poor first quarter of 2015 is still impacting the calculation. Using the last nine months only, and including full distributions to Alaris, the coverage ratio is between 1.0x and 1.5x.

Planet Fitness — *7.8% of revenue*

In November 2014, the Corporation announced the purchase of preferred units in PF Growth Partners, LLC ("Planet Fitness"), for an aggregate acquisition cost of $35.0 million USD. In July 2015, the Corporation purchased an additional $5 million of preferred units. Annual growth or decline in Planet Fitness' annualized distributions of $5.96 million USD to Alaris is capped at 5% and is based on same club sales.

Planet Fitness, through its affiliates, operates over 40 fitness clubs in Maryland, Tennessee, Florida and Washington (as of March 31, 2016) as a franchisee of Planet Fitness® and has area development agreements ("ADA's") to open over 50 new Planet Fitness® clubs in those same States. Planet Fitness has grown to become one of the top 3 largest non-corporate affiliated franchisees in the Planet Fitness® system. Planet Fitness has a very repeatable, predictable and scalable business model and intends to open additional clubs in 2016 and currently employs over 450 individuals company-wide.

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, Planet Fitness' revenue and EBITDA are both over 20% ahead of the prior year. For 2015, same club sales exceeded the maximum 5% increasing the distributions to $6.22 USD for 2016.

The fair value of the Planet Fitness units remains at $42.0 million USD at March 31, 2016. The fair value of the Planet Fitness units in Canadian dollars will fluctuate each quarter with foreign exchange rates. The Earnings Coverage Ratio for Planet Fitness has increased since the last quarter and remains between 1.0x and 1.5x.

DNT ***13.2% of revenue***

In June 2015, the Corporation announced the purchase of preferred units in DNT Construction, LLC ("DNT"), for an aggregate acquisition cost of $70 million USD. Annual growth or decline in DNT's annualized distributions of $10.5 million USD to Alaris is capped at 6% and is based on gross revenues.

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 as well as paving and the building of retaining walls. With its head office in Austin, Texas, DNT employs over 650 people during peak season and is one of the largest service providers of its kind in the Austin market while also holding significant market share in San Antonio. These markets are attractive, fast growing and have diverse economies with major industry employers including healthcare, government, technology and education. Both Austin and San Antonio have strong employment rates and significant job growth at rates above the U.S. National average.

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, DNT's revenue and EBITDA are both more than 20% ahead of the prior year due to a strong start to 2016 compared to weather delays at the start to the year in 2015 that impacted margins in the prior year.

The DNT units were purchased in June 2015 so the fair value is what the Corporation paid for the units plus capitalized costs, $70.6 million USD. The fair value of the DNT units in Canadian dollars will fluctuate each quarter with foreign exchange rates. The Earnings Coverage Ratio has improved since last quarter and remains between 1.5x and 2.0x.

Federal Resources ***10.0% of revenue***

In June 2015, the Corporation announced a $7.0 million USD subscription for preferred stock (the "FR Units") of Federal Resources Supply Company ("Federal Resources") and a $40 million USD secured subordinated loan (the "FR Loan") to Federal Resources, for an aggregate cost of US$47 million. Annual interest on the FR Loan is fixed at $7.05 million USD to Alaris. Commencing in January, 2017, Alaris will also be entitled to receive an annual preferred dividend based on an increase to Federal Resources' gross revenues (subject to a 6% collar). Such annual dividend will be adjusted (up or down) each year based on any increases or decreases in Federal Resources' gross revenues for its immediately preceding fiscal year, subject to a maximum increase or decrease of six percent (6%) per year. On April 29, 2016 Alaris made an additional contribution of $6.5 million USD in exchange for an annual distribution of $910,000 USD.

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. In particular, Federal Resources specializes in the provision of detection and protection equipment to end-users dealing with chemical biological, radiological, nuclear and explosive ("**CBRNE**") threats. According to Federal Resources' management, CBRNE products are one of the highest growth product categories in the defense procurement budget with CBRNE threats representing the most widely anticipated global threat over the next 10 years. Federal Resources was founded in 1986 and employs 150 people.

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, Federal Resource's revenue and EBITDA were both over 40% ahead of the prior year.

The FR Units were purchased in June 2015 so the fair value is what the Corporation paid for the units plus capitalized costs, $7 million USD. The FR Loan was made in June 2015, so the fair value of the Loan is the outstanding principal amount of $40 million USD. The fair value of the FR Units and the FR Loan in Canadian dollars will fluctuate each quarter with foreign exchange rates. The Earnings Coverage Ratio for FR has improved since the last quarter and remains between 1.0x and 1.5x.

MAHC Holdings, LLC **2.5% of revenue**

On December 31, 2015, the Corporation announced the purchase of preferred units in MAHC for an aggregate acquisition cost of $13.275 million USD. Annual growth or decline in MAHC's annualized distributions of $1.99 million USD to Alaris is capped at 5% and is based on same facility sales.

Founded in 2003 and headquartered in Timonium, MD, Mid-Atlantic Health Care has grown to be an innovator in post-hospital services throughout Maryland and Pennsylvania, operating 21 facilities and over 3,800 beds in those states. Mid-Atlantic Health Care prides itself on providing the highest quality of healthcare by offering a caring environment, quality hands-on clinical and nursing services, and a commitment to outstanding, patient-centered care. Mid-Atlantic is a leader in managing skilled short-term stays for rehabilitation as well as long term care.

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, MAHC's revenue and EBITDA are both consistent with the prior year.

The MAHC units were purchased in December 2015 so the fair value is what the Corporation paid for the units plus capitalized costs, $14.0 million USD. The fair value of the MAHC units in Canadian dollars will fluctuate each quarter with foreign exchange rates. On a pro forma basis, the earnings coverage ratio for MAHC is between 1.5x and 2.0x.

Sandbox Acquisitions, LLC **4.1% of revenue**

On March 8, 2015, the Corporation announced the purchase of preferred units in Sandbox for an aggregate acquisition cost of $22 million USD. Annual growth or decline in Sandbox's annualized distributions of $3.3 million USD to Alaris is capped at 6% and is based on the change in gross revenue.

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. Sandbox has decades of proven results and is owned and managed by highly experienced advertising professionals with global experience. Sandbox focuses on serving clients primarily in highly specialized industries such as life sciences, agriculture and financial services. The company plans to continue to acquire and combine regional marketing communication companies that would complement the entire organization through diversity of clients and industries, skill sets and expertise. Sandbox is headquartered in Chicago, IL with offices in Chicago, Kansas City, Indianapolis, Des Moines, Santa Monica, New York and Toronto.

Based on unaudited financial statements provided by management for the two months ended February 29, 2016, Sandbox's revenue and EBITDA are both consistent with the prior year.

The Sandbox units were purchased in March 2016 so the fair value is what the Corporation paid for the units plus capitalized costs, $22.7 million USD. The fair value of the Sandbox units in Canadian dollars will fluctuate each quarter with foreign exchange rates. On a pro forma basis, the earnings coverage ratio for Sandbox is between 1.5x and 2.0x

Providence Industries **5.7% of revenue**

Subsequent to March 31, 2016, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., contributed $30.0 million USD to Providence. Annual growth or decline in Providence's annualized distributions of $4.5 million USD to Alaris is capped at 5% and is based on the change in same customer sales.

Providence is a leading provider of design, engineering, development, manufacturing and sourcing services for international apparel companies and retailers. The Company utilizes its extensive global network of sourcing and manufacturing partners to provide value-added sourcing excellence to customers, combined with rapid speed to market. In addition, Providence's unique design expertise and focus on innovation enables customers to remain at the forefront of evolving fashion trends. The Company has an experienced management team with significant industry "know-how", which is supported by a talented workforce of over 300 employees. Providence plans to continue to grow with current customers and add new customers that complement its current client and sourcing bases. The Company is headquartered in Long Beach, CA.

LIQUIDITY AND CAPITAL RESOURCES

As at March 31, 2016 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks. The interest rate on the new facility is prime plus 2.25% (4.95% at March 31, 2016). The covenants on the new facility include a maximum debt to EBITDA of 1.5:1 (can extend to 2.25:1 for up to 90 days), minimum tangible net worth of $450 million; and a minimum fixed charge coverage ratio of 1:1. At March 31, 2016, the facility was $115.4 million drawn. At March 31, 2016, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum debt to EBITDA of 1.5:1 (1.25:1 at March 31, 2016); minimum tangible net worth of $450.0 million ($650.2 million at March 31, 2016); and a minimum fixed charge coverage ratio of 1:1 (1.21:1 at March 31, 2016).

The Corporation had 36,302,736 voting common shares outstanding at March 31, 2016. The Corporation had working capital of approximately $66.0 million at March 31, 2016 (though $30 million USD ($39.2 million CAD) was contributed to Providence on April 1, 2016). Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

WORKING CAPITAL

The Company's working capital (defined as current assets, excluding promissory notes and investment tax credits receivable, less current liabilities) at March 31, 2016 and December 31, 2015 is set forth in the tables below.

	March 31, 2016	December 31, 2015
Cash	$55,569,632	$20,990,702
Prepayments	1,665,515	2,434,451
Income tax receivable	7,176,078	3,528,509
Trade and other receivables	14,049,989	10,577,985
Total Current Assets	**$78,461,214**	**$37,531,647**
Accounts payable & accrued liabilities	3,187,889	2,138,132
Dividends payable	4,900,870	4,900,869
Foreign exchange contracts	1,474,787	5,345,488
Income tax payable	2,858,812	1,841,634
Total Current Liabilities	**$12,422,358**	**$14,226,123**
Net Amount at March 31, 2016	**$66,038,856**	**$23,305,524**

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

FINANCIAL INSTRUMENTS

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

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

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

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from the Corporation's US investments. The Corporation matches approximately 80-100% of the next twelve months' scheduled distributions to the Canadian parent and a portion of the following twelve months' distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss. As at March 31, for the next twelve months, total contracts of $31.2 million USD average $1.27 CAD. For the following twelve months, total contracts of $17.25 million USD average $1.35 CAD.

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

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

March 31, 2016	Total	0-6 Months	6 mo – 1 yr.	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	$3,187,889	$3,187,889	$-	$-	$-
Dividends payable	4,900,870	4,900,870	-	-	-
Foreign exchange contracts	1,474,787	770,587	704,200	-	-
Income tax payable	2,858,812	2,858,812	-	-	-
Loans and borrowings	115,366,675	-	-	-	115,366,675
Total	**$127,789,033**	**$11,718,158**	**$704,200**	**$-**	**$115,366,675**

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

There are no changes in internal controls over financial reporting. A complete discussion of the internal controls over financial reporting can be found under the MD&A that accompany the audited financial statements for the year ended December 31, 2015.

SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior credit facility described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its leases for office space. The Corporation agreed to a seven-year lease that commenced in 2009. Annual leasing costs were approximately $175,000 however that space was no longer sufficient for the Corporation so in December 2014, the Corporation agreed to a five-year lease commencing July 2015 at a new location. The commitments below include recovery from a sub-lease for the final year of the 2009 lease.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	$115,366,675	$-	$-	$115,366,675	$-
Office lease	1,840,820	464,558	836,797	539,465	-
Total Contractual Obligations	$117,207,495	$464,558	$836,797	$115,906,140	$-

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management is required to make estimates when preparing the financial statements. Significant estimates include the valuation of intangible assets and preferred limited partnership units, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2016, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the unaudited condensed consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, with an effective date for annual periods beginning on or after January 1, 2018 and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

SUMMARY OF QUARTERLY RESULTS

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

	Q1-16	Q4-15	Q3-15	Q2-15	Q1-15	Q4-14	Q3-14	Q2-14
Revenue	$24,566	20,683	19,082	17,734	19,763	17,139	17,545	16,910
Earnings	$20,842	20,550	6,466	8,951	21,803	13,593	14,629	8,745
Basic and Diluted	$0.57	$0.57	$0.18	$0.28	$0.68	$0.42	$0.46	$0.30
Income (loss) per Share/Unit	$0.57	$0.56	$0.18	$0.27	$0.66	$0.41	$0.45	$0.30

In each quarter in 2015 and 2016, an unrealized foreign exchange gain / loss has impacted earnings. In Q1 2016, the Corporation recorded a $18.6 million gain on the LifeMark redemption that increased revenue and earnings in that period; in Q1 2015 the Corporation recorded a $2.8 million gain on the Killick redemption that increased revenue and earnings in that period; in Q4 2014, the Corporation recorded a $0.8 million loss on the Quetico redemption that decreased revenue and earnings in that period.

OUTSTANDING SHARES

At March 31, 2016, the Corporation had authorized, issued and outstanding, 36,302,736 voting common shares.

No shares were issued in the current period.

At March 31, 2016, 274,957 RSUs and 1,966,484 stock options were outstanding under the Corporation's long-term incentive compensation plans. The weighted average exercise price of the outstanding options is $26.93.

At May 10, 2016, the Corporation still had 36,302,736 common shares outstanding.

CRA UPDATE

In 2014, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009 (the "Reassessments"). In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2014. Pursuant to the Reassessments, the deduction of approximately $110 million of non-capital losses by the Corporation was denied, resulting in reassessed taxes and interest of approximately $34.2 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 for taxation years from 2006 through to 2012. 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 reassessment. 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 its July 14, 2009 tax return, and each return filed after that date, were filed correctly and it will be successful in appealing such Reassessment. The Corporation intends to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amount as a deposit to the Canada Revenue Agency. The Corporation paid $1.27 million in deposits in 2014 and an additional $10.7 million in 2015 relating to these reassessments. In the three months ending March 31, 2016, the Corporation paid a $1.3 million deposit to the Alberta Treasury Board and Finance. 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 subsequent to December 31, 2015, on the same basis. Remaining investment tax credits of $7.2 million at March 31, 2016 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.

Tax Year	Pools Applied	Tax, interest & penalties
July 2009	$10,532	$4,108
December 2009	1,916	719
December 2010	14,646	5,273
December 2011	14,992	4,908
December 2012	16,774	4,947
December 2013	22,642	6,286
December 2014	29,153	7,958
Total	**$110,655**	**$34,199**

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 of approximately $7.2 million at March 31, 2016.

SUBSEQUENT EVENTS

Subsequent to March 31, 2016, the Corporation, through its wholly-owned subsidiary Alaris USA Inc., contributed $30.0 million USD to Providence Industries, LLC. Pursuant to agreements dated April 1, 2016, the Corporation is entitled to receive an annual preferred distribution of $4.5 million USD in priority to distributions on Providence's common shares in an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence's same customer sales for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

On April 29, 2016 Alaris made the Additional Federal Resources Contribution of $6.5 million USD ($8.15 million CAD) in exchange for an annual distribution of $910,000 USD (approximately $1.1 million CAD) (the "Additional FED Distribution") for the first full year following closing (for 2016 Alaris will receive the pro-rata portion of the Additional FED Distribution based on the calendar days remaining in the year). The Additional FED Distribution will be adjusted annually (with the first reset being January 1, 2018), subject to a 6% collar. Federal Resources used the proceeds from Alaris to fund a portion of the purchase price for a strategic acquisition of a single point training and support provider for CBRNE users.

OUTLOOK

Based on Alaris' current agreements with its partners, it expects revenues to the Corporation of approximately $101.5 million for 2016. For the second quarter of 2016, those same agreements provide for revenues of approximately $24.5 million for the Corporation. Annual general and administrative expenses are currently estimated at $8.0 million annually and include all public company costs. The Corporation's annualized payout ratio is at approximately 77% today, assuming the collection of all accrued distributions. The senior debt facility was drawn to $115.4 million at March 31, 2016 and $119.3 million at May 10, 2016, leaving the Corporation with approximately $130 million including the $50 million available under the accordion feature of the facility. The annual interest rate on that debt was approximately 4.95% at March 31, 2016 and remains at that level today.

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 2016. As a conservative measure, Alaris does not use any estimates for future revenue earned from the contribution of capital into new or existing Partners in its guidance or budgeting process

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

RISKS AND UNCERTAINTY

A complete discussion of the risks faced by the Corporation can be found under the MD&A that accompany the audited financial statements for the year ended March 31, 2016 and in the Corporation's annual information form for the year ended December 31, 2015.

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 2016, including, without limitation, the Earnings Coverage Ratio for the Partners; the revenues to be received by Alaris in 2016 (on an annual and quarterly basis); the Corporation's general and administrative expenses and cash requirements in 2016; the CRA proceedings (including the expected timing and financial impact thereof); the Corporation's payout ratio; changes in distributions from Partners; the resolution of the KMH process (including the structure, amount to be received by Alaris and the timing thereof); the impact and timing of cost reduction strategies, working capital improvement and other cash flow initiatives of certain Partners; and Alaris' ability to attract new private businesses to invest in. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. To the extent that any forward-looking statements herein constitute a financial outlook, including without limitation, estimated revenues) and expenses, Annualized Payout Ratio, 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; that the Corporation will experience net positive resets to its annual royalties and distributions from its Partners in 2016; more private companies will require access to alternative sources of capital; and that Alaris will have the ability to raise required equity and/or debt financing on acceptable terms.

Some of the factors that could affect future results and could cause results to differ materially from those expressed in the forward looking statements contained herein include risks relating to: the dependence of the Corporation on the Partners; risks relating to the Partners and their businesses; reliance on key personnel; general economic conditions; failure to complete or realize the anticipated benefits of transactions; limited diversification of Alaris' transactions; management of future growth; availability of future financing; competition; government regulation; leverage and restrictive covenants under credit facilities; the ability of the Partners to terminate the various agreements with Alaris; unpredictability and potential volatility of the trading price of the common shares; fluctuations in the amount of cash dividends; restrictions on the potential growth of the Corporation as a consequence of the payment by Alaris of substantially all of its operating cash flow; income tax related risks; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; liquidity of Common Shares; changes in the financial markets; risks associated with the Partners and their respective businesses; a change in the ability of the Partners to continue to pay Distributions to Alaris; a material change in the operations of a Partner or the industries in which they operate; a failure to obtain the benefit of any concessions provided to any Partners; a failure to obtain required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; litigation risk associated with the CRA's reassessment and the Corporation's challenge thereof; and material adjustments to the unaudited internal financial reports provided to Alaris by the Partners. The information contained in this MD&A, including the information set forth under "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.