ALARIS
ROYALTY CORP.

ANNUAL
REPORT

Fiscal year ended December 31, 2017

Creating the optimal dividend stream available for investors

PROFILE

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

OBJECTIVE & STRATEGY

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

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

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

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PRESIDENT'S MESSAGE

2017 was a dynamic year within Alaris' portfolio. In addition to setting a new record for capital deployment over the last twelve months and adding the single largest partner in our history, we also continued our strong track record of returns on partners where we have sold alongside the entrepreneur. Over the 14 year history of Alaris, we have now had a full investment cycle with 10 companies (including the recently announced Agility transaction) and have recorded internal rates of return of greater than 20% in seven of them with a weighted average of roughly 17.5%. Management believes these results put us near the top of our industry in performance.

Most encouraging is the strength of our current portfolio. Alongside progress from companies that have experienced challenges, our largest partners continue to be amongst our best performers and more than 80% of our revenue in 2017 is from partners that are growing their distributions to us year over year. Of the challenged files, we were able to successfully exit Agility with an IRR of 25% and we re-instituted partial distributions from SCR in 2017 and expect those distributions to increase this year. Partial Kimco distributions are expected to re-start imminently with the recent change in the company's banking relationship and improving financial results. Group SM was the one major disappointment in 2017 but discussions to recoup our remaining outstanding debt have been encouraging. As a whole, we are pleased with the performance but will as always continue to explore ways to improve our performance. Utilizing innovative structures that have been initiated over the last few years we believe will have measurable benefits for our shareholders moving forward.

Looking ahead, while the overall environment in the private equity industry remains extremely competitive, we do see an opportunity to continue growing our capital deployment due to increasing interest rates in the US, restrictions on the use of high levels of debt and also our own new initiatives. Shareholders can expect to see Alaris invest not just with our traditional preferred shares in our partners but also with a small amount of common shares that will provide us with additional upside on successful partners while also allowing us to participate in additional transactions where more than just preferred shares are required to compete. This small change will not change the mission of Alaris to provide our shareholders with a safe, predictable cash dividend stream that we've been delivering since we started in early 2004 but we do feel that it will enhance our ability to deploy more capital with highly accretive returns.

I look forward to reporting back in one year's time after what we expect to be another very successful year.

Yours truly,

Steve King
President and CEO
Alaris Royalty Corp.

BENEFITS TO SHAREHOLDERS & OWNERS

Benefits to Shareholders – The Five Pillars to the Optimal Dividend

Low Volatility of Cash Flows	**Visibility** of Cash Flows	**Diversification** of Revenue Streams	**Liquidity** for Shareholders	**Growth** in Cash Flow Per Share
Alaris' preferred distributions are: • based on top-line performance and paid in priority to other equity • covered by a cash-flow buffer and protective covenants • paid monthly providing monthly cash returns vs returns on an exit • volatility reducing collars on >80% of current distributions	• Alaris adjusts its distributions from Partner's annually and for 12 months • Financial health of Partners is monitored closely each month • The Corporation has relatively low SG&A expenses relative to profitability which has proven the scalability of the model	• Currently have 16 revenue streams • Long-term goal is to have no single revenue stream >10% of total revenue	• Average daily trading volumes provide adequate liquidity for shareholders	• Historic organic growth in Partner revenues of 1% to 5% per year • Add to cash flow per share through accretive capital deployments • Historic growth led to 10 consecutive dividend increases since April 2010

Benefits to business owners

Non-Voting Preferred Equity	✓ Allows the entrepreneur to continue to run their successful businesses with minimal interference by Alaris
Long-Term Capital Partner	✓ Alaris does not require an exit ✓ This allows the entrepreneur to focus on long-term goals rather than short-term goals of its equity sponsor
Tax Efficient	✓ The distributions paid to Alaris are essentially pre-tax as they lower the taxable income of remaining partners
Lower Participation in Growth	✓ Alaris reduces its participation in the growth of the business through the use of collars on its distribution and by basing the performance metric on the organic change in the business versus total growth

Alaris versus other sources of capital: Why do businesses choose Alaris?

	Debt	Alaris	Traditional Private Equity
Operating Control	✓ None	✓ None	⊗ Needs control
Time Horizon	⊗ 3 – 5 years	✓ Indefinite	⊗ 3 – 6 years
Growth Participation	✓ Minimal	✓ Capped	⊗ Full carry
Future Funding	⊗ Maxes out	✓ Unlimited	⊗ Maxes out
Dilution	⊗ Warrants	✓ Preferred Shares	⊗ Common equity

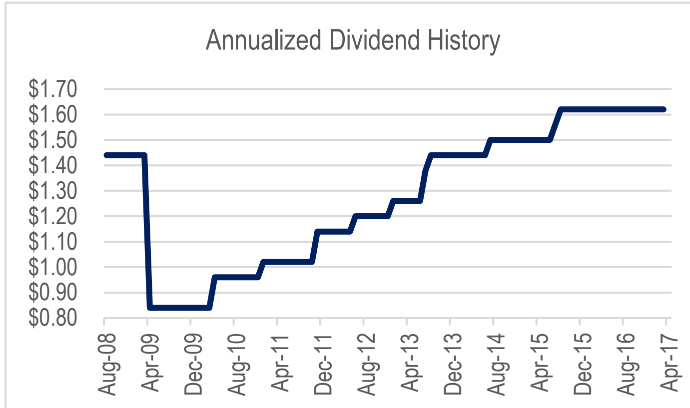
PARTNER CRITERIA

Old Economy Business	✓ Required services or products in mature industries ✓ Businesses with a risk of obsolescence or a declining asset base are not a good fit
Track Record of Free Cash Flow	✓ Alaris looks at historical free cash flow to predict sustainability of its distribution ✓ More free cash flow is required if a business displays more volatility of cash flows
Low Levels of Debt and Capital Expenditure Requirements	✓ Debt levels can vary amongst our Partners depending on industry, but typically a business must have low levels of debt in its capital structure ✓ If a business requires excessive capital expenditures to maintain current cash flow it is likely not a candidate for Alaris
Management Continuity	✓ Alaris does not manage the business of its Partners, therefore it relies on the ownership group/management team to continue to run the business ✓ Alaris invests in companies that are “not for sale”, where management wants to stay in and grow instead of exiting

OUR PERFORMANCE

Dividend History and Sustainability

- Current dividend per share of $0.135 per month ($1.62 annual)
- Alaris has paid monthly dividends every month since Nov 2008 totaling more than $12.50 per share and $330 million gross.
- Dividends per share paid of $1.36, $1.48, $1.56, $1.62 and $1.62 from 2013 through 2017 respectively.
- 10 consecutive dividend increases totaling 93% gross increase.
- 5 year CAGR of 7%



Returns from Exit to Date

Alaris has generated $307 million in total returns (83%) on partners that have either repurchased Alaris' units or ceased operations.

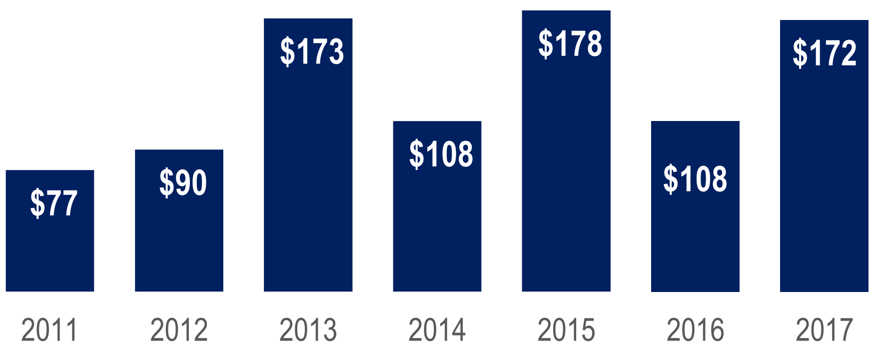
- ✓ IRR's from Partners that repurchased Alaris' units are in a range of 17% to 47% (1)(2).
- ✓ The monthly distribution Alaris receives from its Partner's ensures Alaris is getting a return on investment from day 1, rather than on an exit event. This greatly reduces the investment risk.

$millions CAD	Number of Years Invested	Capital Invested	Distributions Received	Exit Capital Received	Total Return	% total Return	IRR %
LifeMark	11.3	$ (67.5)	$ 51.8	$ 123.4	$ 107.7	159%	29%
MediChair	6.8	(6.5)	6.4	10.0	9.9	152%	23%
Quetico	3.0	(26.9)	13.3	30.7	17.1	63%	22%
Killick	4.0	(41.3)	22.7	44.7	26.1	63%	20%
Solowave	5.8	(42.5)	31.4	44.5	33.4	78%	17%
MAHC (1)	1.0	(18.5)	8.0	19.2	8.7	47%	47%
SHS (2)	0.9	(15.0)	0.8	-	(14.2)	-95%	-95%
KMH (3)	7.0	(54.5)	21.1	28.0	(5.4)	-10%	-2%
Sequel	4.2	(77.5)	58.4	119.5	100.4	130%	29%
Agility	5.3	(20.3)	15.3	28.5	23.5	116%	25%
Totals from exits		**$ (370.5)**	**$ 229.0**	**$ 448.4**	**$ 307.0**	**83%**	

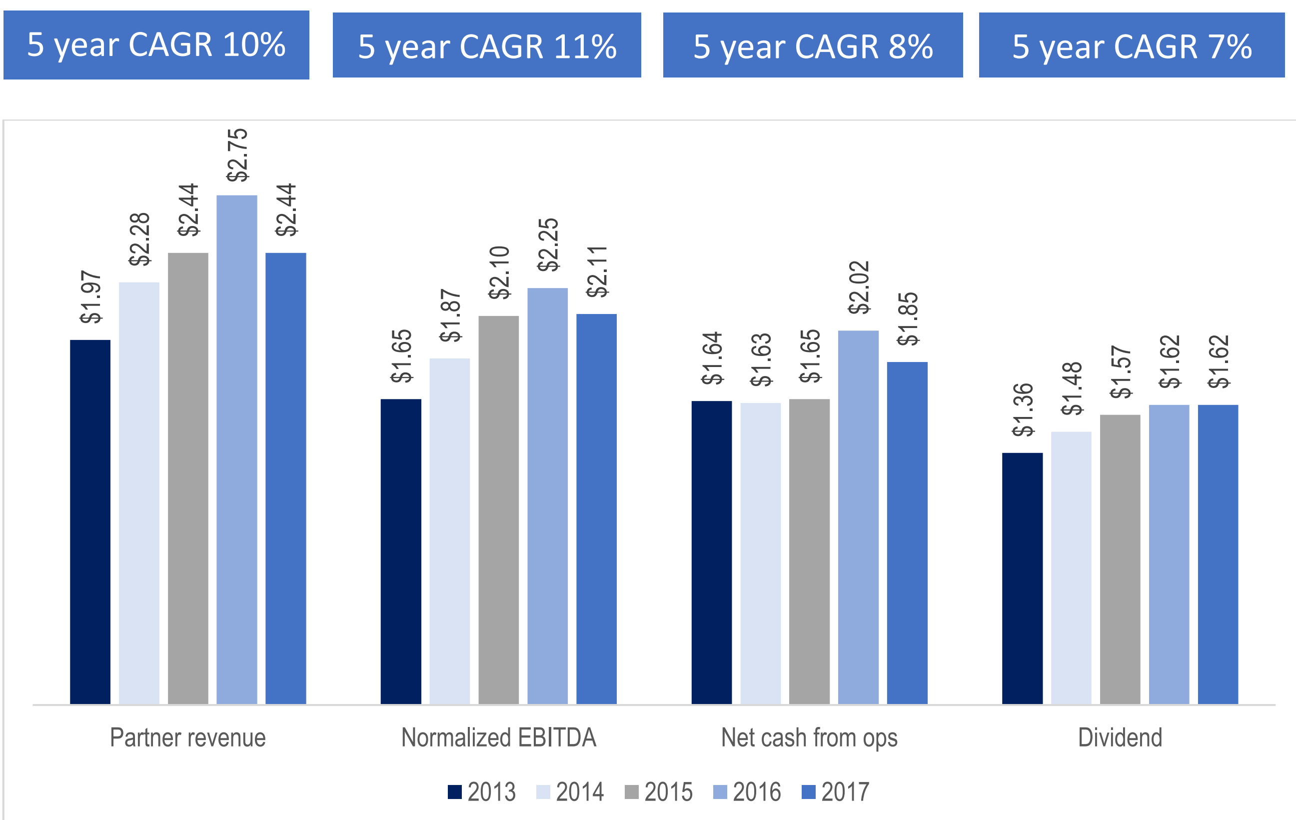
(1) MAHC repurchased Alaris' units after 1 year, resulting in an additional 24 months of distributions being paid to Alaris on exit. This resulted in an IRR much higher than what is expected. Returns are in Canadian dollar. In US dollar terms total return was 53%.
(2) SHS went into receivership in December 2013, therefore no exit capital was received.
(3) A portion of KMH's exit capital has not been collected but is secured against certain assets and collection is expected over time.

OUR PERFORMANCE (CONTINUED)

Capital Deployed since 2011



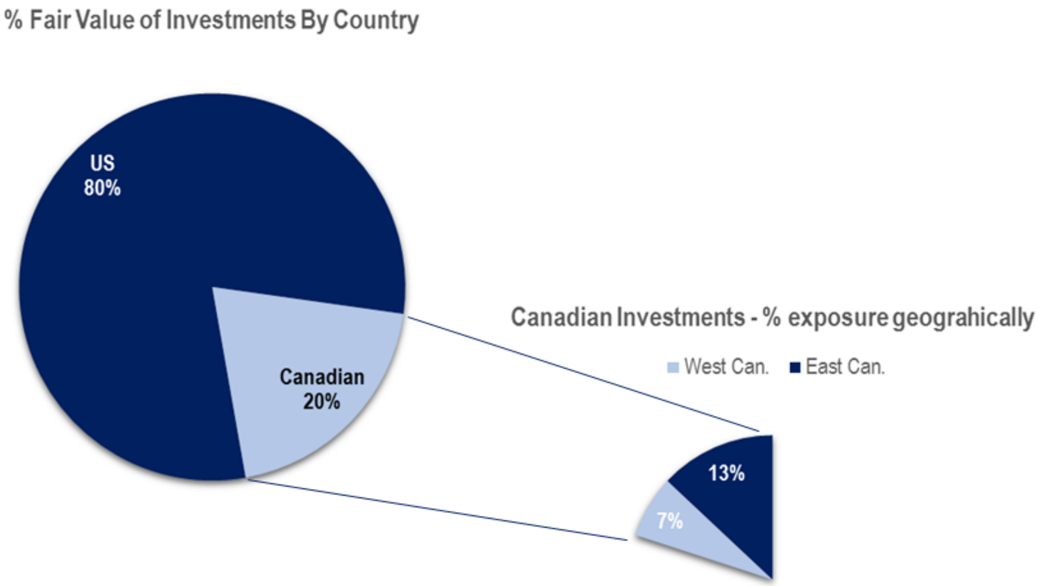
Per Share Metrics

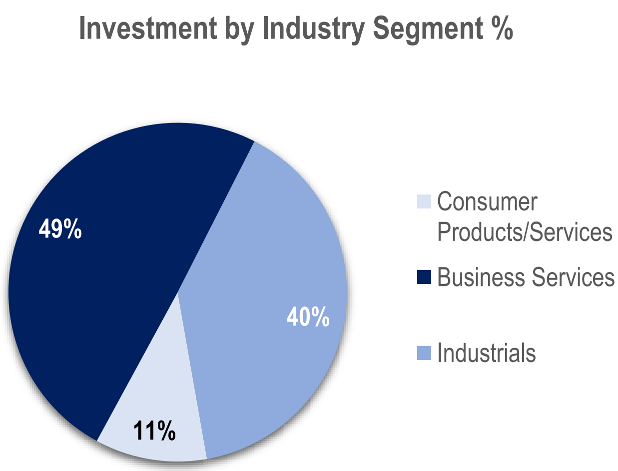


PRIVATE COMPANY PARTNER SUMMARIES

Alaris has approximately **80%** of its fair value of investments in US based companies

- Of the 20% of fair value of investments in Canadian companies, 7% have a focus on Western Canada while 13% are focused on Eastern Canada
- Alaris has historically been weighted to healthcare. However, today, 49% of invested dollars are exposed to business & professional services, 40% to industrials, and 11% to consumer discretionary.
- Approximately 90% of new deals Alaris looks at are domiciled in the United States.





Accscient LLC

Business Description:	Founded in 2007 Accscient provides IT Staffing, Consulting, and Outsourcing services and specializes in Digital Infrastructure Management, Enterprise Resource Planning, Business Intelligence and Database Administration. Headquartered in Atlanta, GA, Accscient's operating businesses include Norwin Technologies (Boston, MA), Premier IT Solutions (Dallas, TX) and Appridat Solutions (Atlanta, GA). Accscient provides its services to a diverse customer base including several Fortune 500 companies.
Industry:	Business Services: *IT Consulting and Staffing*
Capital Invested:	US$20.0m
Annualized Distribution:	US$3.0m
Distribution collar:	+/- 5%
Year end:	December 31
Website:	www.norwintechnologies.com, www.premieritsolns.com, www.appridat.com
Partner since:	June 2017

C&C Communications, LLC

Business Description:	ccComm is a Sprint Preferred Retailer offering mobile solutions and accessories across the Sprint platform. ccComm is headquartered in Federal Way, Washington, with over 65 locations throughout Washington, Oregon, Oklahoma, Texas and Utah and employs over 225 people. ccComm customers are individuals purchasing mobile devices and data/voice plans through the Sprint network as well as customers purchasing accessories for mobile devices.
Industry:	Consumer Discretionary: *Telecommunications*
Capital Invested:	US$6.2m
Annualized Distribution:	US$0.9m
Distribution collar:	+/- 6%
Year end:	December 31
Website:	abwx.net
Partner since:	December 2016

DNT

Business Description:	DNT was founded in 2009 and specializes in turnkey civil construction services to residential, commercial and municipal end markets. Services include; 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. DNT has strong functional capabilities and believes it is the only company in its core markets capable of providing these turnkey infrastructure solutions to its customers. 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 National average. These, among other factors, have placed both markets as amongst the most desirable for commercial and residential development. Customers of DNT's include large publicly traded commercial and residential real estate developers, regional commercial and residential real estate developers and municipal governments.
Industry:	Industrials: *Civil Construction Services*
Capital Invested:	US$68.0m
Annualized Distribution:	US11.5m
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.dntconstruction.com
Partner since:	June 2015

End of the Roll

Business Description:	End of the Roll is Canada's largest dedicated flooring retailer. End of the Roll was incorporated in 1990 and began offering franchise locations in 1994. The discount renovation market is relatively stable compared to the new home market due to the nature of the purchase and the amount of the average sale. Currently, End of the Roll collects franchise royalties from over 50 franchisees nationwide. End of the Roll targets "budget minded" customers who prefer to purchase in smaller quantities and coordinate private installation in order to save on the costs of using a full service retailer.
Industry:	Consumer Discretionary: *Discount flooring*
Capital Invested:	$7.2m
Annualized Distribution:	$1.7m
Distribution collar:	No collar
Year end:	April 30
Website:	www.endoftheroll.com
Partner since:	May 2005

Federal Resources

Business Description:	Founded in 1986 and employing over 200 people, Federal Resources is a Maryland based leading value-added provider of mission critical products and solutions to defense, first responder, homeland security and maritime end users. Federal Resources is a leading provider of detection and protection equipment to first line responders dealing with chemical, biological, radiological, nuclear and explosive ("CBRNE") threats, as well as supplying tactical gear, tools and maritime products. Federal Resources management believes that the CBRNE product category is one of the highest growth product categories in the defense procurement budget with potential CBRNE attacks representing the most widely anticipated global threat for the next 10 years. Customers of Federal Resources include all branches of the US military, various municipal agencies, first responders, airports and various other private and governmental agencies.
Industry:	Industrials: *Wholesale Distribution*
Capital Invested:	US$67.0 (3 tranches)
Annualized Distribution:	US$10.6m
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.federalresources.com
Partner since:	June 2015

Heritage Restoration, LLC

Business Description:	Founded in 1981, and under the leadership of CEO, Andy Bear since 2003, Heritage is a leading specialty contractor providing masonry and masonry related services to the commercial building industry. With a focus on the restoration of existing structures, Heritage's services include masonry procurement, installation and restoration, concrete structure restoration, waterproofing and coating repair, Heritage provides quality customer service and workmanship throughout the entire New England area, employing over 100 highly skilled masons; carpenters; and laborers during peak times. New England's abundance of university campuses, hospitals, and historic urban architecture utilizing brick and stone construction, combined with the high concentrations of concrete parking structures and tunnels, represents large and attractive market opportunities for Heritage, In addition, the attractive macroeconomic environment for new construction activity in the metropolitan Boston area also continues to provide significant opportunities for Heritage. Heritage works with many large regional and national primary contractors, commercial real estate owners and developers and municipalities.
Industry:	Industrials: *Masonry*
Capital Invested:	US$15.0m
Annualized Distribution:	US$2.3m
Distribution collar:	+/- 5%
Year end:	December 31
Website:	http://heritageri.com
Partner since:	January 2018

Kimco

Business Description:	Kimco and its predecessor companies have been providing route based commercial janitorial services throughout the United States since the 1970's. Kimco is a significant sized service provider in a highly fragmented industry, which is estimated by Kimco management to generate over $50 billion in annual sales in the United States. Kimco is one of only a small group of businesses in this industry that operates on a national scale. Services are provided in three business segments: commercial/retail, hospitality and malls. The majority of Kimco's revenue is generated under long-term contracts (generally 1 to 3 years). Kimco services customers, which range in size from multi-location national customers to regional single site customers.
Industry:	Business Services: *Commercial Janitorial Services*
Capital Invested:	US$34.2m (2 tranches)
Annualized Distribution:	US$5.0m[(1)]
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.kimcoserv.com
Partner since:	June 2014
	(1) Partial distributions from Kimco are expected to begin in April 2018 at an estimated $100,000 per month, which represents 18-24% of the $5.0 million of distributions Kimco is contractually obligated to pay Alaris in 2018 with a plan to install a variable payment of distributions based on the availability after meeting banking covenants.

Labstat

Business Description:	Located in Kitchener, Ontario, Labstat was established in 1976 and has grown to become one of the largest independent third party tobacco testing companies in the world supporting regulatory testing and research. Labstat tests all forms of tobacco products including cigarettes (mainstream and side stream tobacco smoke), whole tobacco, snus and smokeless tobacco as well as non-tobacco products such as electronic cigarettes. Labstat has carried out hundreds of Health Canada projects and wrote and validated all 45 of the sanctioned tobacco smoke testing methods for Canada; the first country to implement tobacco regulation. These testing methods are now considered to be the worldwide model for tobacco testing regulation. The senior management team of Labstat is comprised of industry recognized scientists and technical staff, who collectively have over 120 years of experience in the industry. Labstat employs between 130 and 160 staff during its peak business. Labstat provides tobacco chemistry and toxicology testing services for tobacco manufacturers, governments, and public and private entities alike. Labstat is a global business with customers in North America, Europe, South America, New Zealand and Asia.
Industry:	Business Services: *Laboratory testing services*
Capital Invested:	$47.2m (2 tranches)
Annualized Distribution:	$8.4m
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.labstat.com
Partner since:	June 2012

LMS Reinforcing Steel Group

Business Description:	LMS is Western Canada's leading concrete reinforcing steel (rebar) fabricator and installer also providing post tensioning, trucking and crane services. As an installer and supplier, LMS has the advantage of having low fixed costs and fixed assets, which allows the company to be profitable during various negative economic scenarios as it can adjust its labour force to match the activity level. LMS fabricates and installs concrete reinforcing rebar and post tensioning services for construction projects primarily in British Columbia, Alberta, Saskatchewan, and Manitoba as well as recent expansion into California. Project types include; (i) Infrastructure Projects - light rail transit, water treatment plants, tunnels, hydro facilities and bridge decks; (ii) Commercial projects - high rise office space, aquatic centers or airport terminals; (iii) Residential - high rise developments; and (iv) Institutional – university residences, hospitals and community centers. LMS has up to 600 employees during peak season. LMS' customers are typically large general contractors and/or developers.
Industry:	Industrials: *Rebar fabrication & installation*
Capital Invested:	$60.0m (4 tranches)
Annualized Distribution:	$4.9m
Distribution collar:	NA
Year end:	December 31
Website:	www.lmsgroup.ca
Partner since:	April 2007

Planet Fitness Growth Partners

Business Description:	PFGP is a franchisee of Planet Fitness® and was founded in 2008 by Victor and Lynne Brick. The Bricks and their management team are well-respected operators in the fitness industry and have over 30 years of experience as owner/operators of fitness clubs on an individual basis. Through its affiliates, PFGP operates over 55 fitness clubs in Maryland, Tennessee, Florida, Washington DC and Washington State and has area development agreements ("ADA's") to open over 50 additional Planet Fitness® clubs in those same States. PFGP has grown to become one of the top 3 largest non-corporate affiliated franchisees in the Planet Fitness® system and were awarded (out of over 190 franchisees and over 850 Planet Fitness® clubs) the 2013 Franchisee of the Year, 2014 Developer of the Year for opening the most clubs in a single year and the 2014 Brand Excellence Review winner for having the highest rated clubs in the company according to club inspections conducted by Planet Fitness® Corporate. PFGP has its head office in Timonium, MD, located just outside of Baltimore, MD where it employs over 20 people. PFGP has a very repeatable, predictable and scalable business model and intends to continue to open new clubs in 2018 and beyond and currently employs over 500 individuals company wide. Individuals which want to exercise in the Judgment Free Zone® that Planet Fitness provides.
Industry:	Consumer Discretionary: *Health & Fitness Clubs*
Capital Invested:	US$40.0m (2 tranches)
Annualized Distribution:	US$6.5m
Distribution collar:	+/- 5%
Year end:	December 31
Website:	NA
Partner since:	November 2014

Providence Industries

Business Description:	Providence is a leading service provider to the apparel industry. Founded in 2006 and headquartered in Long Beach, California, Providence (d.b.a. MyDyer) is a leading provider of design, engineering, development, manufacturing and sourcing services. Providence 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 supported by a talented workforce of over 300 employees. Customers include publicly traded and private apparel companies and apparel retailers.
Industry:	Business Services: *Apparel Design, Engineering and Sourcing Services*
Capital Invested:	US$30.0m
Annualized Distribution:	US$4.7m
Distribution collar:	+/- 5%
Year end:	December 31
Website:	www.mydyer.com
Partner since:	April 2016

Sandbox

Business Description:	Sandbox is a leading advertising and marketing firm with its headquarters' in Chicago, IL and offices in Chicago, Kansas City, Indianapolis, Santa Monica, New York and Toronto. 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. 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 focuses on serving business to business clients primarily in highly specialized industries such as life sciences, agriculture and financial services.
Industry:	Business Services: *Full Service Marketing and Advertising Agency*
Capital Invested:	US$35.0m
Annualized Distribution:	US$5.4m
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.sandboxww.com
Partner since:	March 2016

SBI

Business Description:	Founded in 2006, SBI is a US based management consulting firm specializing in sales and marketing that is dedicated to helping their clients exceed their revenue growth number. SBI uses the benchmarking method to help clients accelerate their rate of revenue growth. Benchmarking allows SBI's clients to leap frog their competitors by getting access to emerging best practices from the top sales and marketing leaders. SBI believes it is different from other management consulting firms for 3 reasons: (i) Agilitrust – The SBI delivery methodology involves getting to a working prototype very quickly and then rapidly iterating from this to a finished solution. SBI offers a much faster cycle time from problem identification to problem resolution; (ii) Staffing Process – SBI staffs projects with senior-level executives and former heads of sales and marketing who have real-world experience, which results in practical solutions that actually get implemented; and (iii) Compensations Practices – 30% to 50% of every SBI employee's compensation package is tied to a bonus that is entirely based on client feedback and overall impact, which naturally fosters client intimacy. Customers include private equity funds, mid to large regional businesses and Fortune 500 businesses.
Industry:	Business Services: *Management Consulting, Sales & Marketing*
Capital Invested:	US$85.0m
Annualized Distribution:	US$11.1m
Distribution collar:	+/- 8%
Year end:	December 31
Website:	www.salesbenchmarkindex.com
Partner since:	August 2017

SCR

Business Description:	SCR has been providing mining services in the Northern Ontario region since 1994. SCR offers a wide variety of surface and subsurface mining, construction, electrical and mechanical services. SCR is known for their expertise and ability to install, construct, maintain, and recommend the best and most economical solution for a mining project. The company employs over 250 dedicated workers during peak times. The company works with large multi-national mining companies as well as junior producers alike, on a contractual basis.
Industry:	Industrials: *Mining services*
Capital Invested:	$40.0m
Annualized Distribution:	$5.7m[(1)]
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.scrmines.com
Partner since:	May 2013
	(1) SCR is contractually obligated to pay Alaris $5.66 million in 2018 but currently paying Alaris $100,000 per month ($1.2 million annually) with expectations that this amount will increase throughout the year. The actual amount of distributions received by Alaris from SCR will likely be less than $5.66 million in 2018.

S.M. Group International

Business Description:	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. Active in more than 30 countries, SMi has over 1,200 professionals and specialists who are dedicated to delivering innovative and fully integrated solutions. SMi provides its services to a broad scope of clients including local corporations, multinationals, institutions, as well as government bodies at every level, including state owned enterprises.
Industry:	Industrials: *Engineering and construction services*
Capital Invested:	$40.5m (3 tranches)
Annualized Distribution:	$6.0m[(1)]
Distribution collar:	+/- 6%
Year end:	December 31
Website:	www.groupesm.com
Partner since:	November 2013
Partner since:	December 2010
	(1) The distribution from SMi listed in the table is the amount they are contractually obligated to pay Alaris in 2018. However, SMi is currently not paying Alaris a distribution nor is it expected to be making any distributions for the foreseeable future.

Unify

Business Description:	Founded in 2006, Unify is a management consulting firm that provides companies with local, customized consulting solutions. Located in Seattle, Washington, Unify employs over 200 experienced consultants that provide consulting solutions across six primary service lines: Business Intelligence, Business Transformation, Enterprise Resource Planning, Project and Product Management, Visual Communication and Organizational Change Management. Unify expects continued growth in the Seattle region, one of the fastest growing markets in the U.S., coupled with growth opportunities in other identified regions. Unify has been recognized as one of the fasted growing consulting firms in the U.S. as well as one of Washington's top workplaces. Customers include a blend of Fortune 500 companies across a diverse set of industries.
Industry:	Business Services: *Management Consulting*
Capital Invested:	US$18.0m
Annualized Distribution:	US$2.8m
Distribution collar:	+/- 5%
Year end:	December 31
Website:	https://www.unifyconsulting.com/
Partner since:	October 2016

Note: Please refer to the Annual Information Form dated March 13, 2018 for more information on Private Company Partners, including, without limitation, how the annualized distribution is calculated.

FINANCIAL HIGHLIGHTS

Full Year 2017 Highlights:

- Revenue from Partners of 89 million
- Normalized EBITDA to $77 million
- Net cash from operating activities of $67 million
- Dividends paid of $59 million – full year payout ratio of 87.6%

Per Share Items:

- Revenue from Partners of $2.44
- Normalized EBITDA of $2.11
- Net cash from operating activities of $1.85
- Annual dividend of $1.62

Capital Deployment Last 18 Months - $191 million (US$153 million):

New Partners in 2017

- US$85.0 million into SBI
- US$20.0 million into Accscient
- US$6.2 million into ccComm

Follow-on Contributions to Existing Partners in 2017

- US$13.5 million into Federal Resources
- US$13.0 million into Sandbox

Partner Redemptions in 2017:

- US$95.6 million from the full redemption of Alaris' units in Sequel (IRR of 29% in Canadian dollar terms, 25% US dollar)
- US$2.0 million from the partial redemption of DNT's redeemable units (US$28.0 million of redeemable units and US$40.0 million of permanent units remain)

Subsequent to year end:

- Added a new Partner - US$15.0 million contribution into Heritage in January 2018.
- Successful conclusion relating to Agility Health, LLC ("Agility")
    - Received US$22.2 million of proceeds for the redemption of all of our units in Agility – an IRR of 25% in Canadian dollar terms, 18% in US dollars)
    - Received US$2.9 million of proceeds for previously unpaid distributions and US$1.6 million of principal and interest on a loan outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended December 31, 2017

MANAGEMENT DISCUSSION AND ANALYSIS

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the financial statements for the year ended December 31, 2017 and December 31, 2016 for Alaris Royalty Corp. ("**Alaris**" or the "**Corporation**"). The Corporation's consolidated financial statements and the notes thereto have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are recorded in Canadian dollars. Certain dollar amounts in the MD&A have been rounded to the nearest thousands of dollars.

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

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 years ended December 31, 2017 and 2016, the gains on the redemption of the LifeMark, Solowave, MAHC and Sequel units, the impairment of the KMH and Group SM units, the write off of the interest on the KMH promissory notes, bad debt expense related to unpaid distributions from Group SM, the impairment and accretion of the Phoenix secured note, bad debt expense of the Kimco long-term receivable and promissory note, one-time penalties and fees related to the CRA GST audit (and the subsequent recovered amount) are considered by management to be non-recurring charges. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from EBITDA on an ongoing basis. Adjusting for these non-recurring items allows management to assess EBITDA from ongoing operations.

Normalized Earnings refers to earnings excluding items that are non-recurring in nature and is calculated by adjusting for non-recurring expenses, gains, non-cash unrealized gains and losses on foreign exchange items and the net tax impact of the adjustments to earnings. Management deems non-recurring items to be unusual and/or infrequent items that the Corporation incurs outside of its common day-to-day operations. The corresponding tax impact of the all non-recurring items is adjusted in Normalized Earnings. For the year ended December 31, 2017 and 2016, the gain on the redemption of the LifeMark, Solowave, MAHC and Sequel units, the impairment of the KMH and Group SM units, the write off of the interest on the KMH promissory notes, bad debt expense of the Kimco long-term receivable and promissory note, bad debt expense related to unpaid distributions from Group SM, the impairment and accretion of the Phoenix secured note are considered by management to be non-recurring charges. Foreign exchange realized and unrealized gains and losses are recurring but not considered part of operating results and excluded from earnings on an ongoing basis.

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

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

Fixed Charge Coverage Ratio refers to EBITDA less unfunded maintenance capital expenditures less income taxes divided by the sum of interest, debt repayments and distributions to Alaris.

Contracted EBITDA refers to EBITDA for the previous twelve months excluding proceeds from any disposition of investments and any distributions accrued and not received but including all projected contracted payments from new and existing investments for the twelve-month period following the investment date.

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).

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

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

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

OVERVIEW

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

RESULTS OF OPERATIONS

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Year Ended December 31	2017	2016	% Change
Revenue per share	$2.44	$2.75	-11.3%
Normalized EBITDA per share	$2.11	$2.40	-6.2%
Net cash from operating activities per share	$1.85	$2.02	-8.4%
Dividends per share	$1.62	$1.62	+0.0%
Basic earnings per share	$0.33	$1.83	-82.0%
Fully diluted earnings per share	$0.32	$1.81	-82.3%
Normalized basic earnings per share	$1.81	$1.75	+3.4%
Weighted average basic shares outstanding (000's)	36,447	36,336	

For the year ended December 31, 2017, revenue per share decreased by 11.3% due to a number of successful and profitable partner redemptions in the past twenty-four months ($17.5 million less revenue in 2017 compared to 2016 for Solowave, MAHC, LifeMark, Sequel) and the pause or partial payment of distributions from three existing partners (Group SM, Kimco and SCR). These decreases were partially offset by new partner distributions in 2017 of $12.8 million (Sandbox, MyDyer, Unify (formerly Matisia), SBI, Accscient, ccComm, and follow on transactions with Sandbox and Federal Resources and higher distributions from positive resets ($3.6 million).

Normalized EBITDA of $2.11 per share decreased by 6.2% due to lower distributions as noted above offset by lower overhead. Net cash from operating activities was $1.85 per share, a decrease of 8.4% compared to the year ending December 31, 2016. The decrease is a result of lower distributions as the comparative period included an additional US$3.9 million (approximately CAD$5.3 million and $0.14 per share) of distributions from the MAHC redemption and a larger realized foreign exchange gain, partially offset by lower overhead. Dividends paid were $1.62 per share during year ended December 31, 2017, an actual payout ratio of 87.6% for the year.

Partner Revenue (000's)	Year ended December 31, 2017	Year ended December 31, 2016	% Change	Comment
DNT	$14,216	$ 13,921	+2.1%	+6% Gross Revenue in Jan-17, offset by $2M redemption and FX impact
Sequel	12,174	15,937	-23.6%	Redemption of all units in Sept-17
FED	11,074	10,122	+9.4%	+6% Gross Revenue in Jan-17, follow on contribution Apl-16 and Dec-17
Planet Fitness	8,488	8,250	+2.9%	+5% same club sales increase Jan-17, offset by FX impact
Labstat	7,940	5,500	+44.4%	Cash flow sweep significantly higher in 2017, max distributions in 2017
Providence	5,843	4,420	+32.2%	Contribution closed Apl-16
Sandbox	4,909	3,507	+40.0%	Contributions Mar-16, Sept-17 and Dec-17 and +6% reset Jan-17
LMS	4,746	4,653	+2.0%	Gross profit -1% Jan-17, additional contribution of US$4.35M in Mar-16
SBI	4,642	-	+100.0%	Contribution closed Sept-17
Agility Health	3,972	4,074	-2.5%	FX impact
Unify (formerly Matisia)	3,506	835	+319.7%	Contribution closed Oct-16
Accscient	1,926	-	+100.0%	Contribution closed Jun-17
End of the Roll	1,266	1,219	+3.9%	3.9% increase in same store sales May-17
ccComm	883	-	+100.0%	Contribution closed Jan-17, additional contribution of US$2.2M in Aug-17
SCR	600	3,008	-80.1%	Pause in distributions beginning Jun-16, restarted Jul-17 at $100K per month
Group SM	500	6,377	-92.2%	6% reduction in reset in Jan-16, only recognizing revenue as received in 2017
Solowave	-	5,160	-100.0%	Redeemed in Sept-16
Kimco	-	2,816	-100.0%	Stopped monthly accrual Jul-16
MAHC	-	7,958	-100.0%	Redeemed in Dec-16
LifeMark Health	-	730	-100.0%	Redeemed in Jan-16
	$86,684	**$ 98,486**	-12.0%	
Interest & other	2,389	1,556	+53.5%	Increase in Group SM, Kimco and Agility notional oustanding and accretion on long term prom notes
Total	**$89,073**	**$100,042**	**-11.0%**	

Finance costs were $6.6 million compared to $5.9 million in the prior year, an 11.9% increase due to higher interest rates on US and CDN denominated debt with comparable average debt amounts outstanding (average outstanding debt of $112.2 million for the year ending December 31, 2017 versus $114.9 million for the comparable year in 2016).

Salaries and benefits were $3.4 million in the year, an increase of 0.3% compared to the prior year. The increase is due to a higher number of total employees partially offset by lower variable compensation.

Corporate and office expenses were $2.6 million in the year a decrease of -21.2% compared to $3.3 million in the prior year. The decrease is due to 2016 including $0.7 million of one time penalties and fees related to prior year tax filings and 2017 including the receipt of contested penalties ($0.4 million) on previous tax filings.

Legal and accounting fees were $2.1 million in the year a decrease of -16.6% compared to $2.5 million in the prior year. The decrease is due the Corporation incurring lower accounting and advisory fees related to existing partners in 2017.

For the year ended December 31, 2017 the Corporation incurred stock-based compensation expenses of $3.4 million (2016 - $4.3 million) which includes: $2.2 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting year of the plan (2016 - $3.2 million); and $1.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $1.1 million). The lower stock based compensation is a result of a member of the management team leaving the Corporation in Q4, 2016, resulting in forfeited options and RSU's.

The Corporation recorded earnings of $11.9 million, EBITDA of $29.0 million and Normalized EBITDA of $77.0 million for the year ended December 31, 2017 compared to earnings of $66.6 million, EBITDA of $92.3 million and Normalized EBITDA of $81.8 million for the year ended December 31, 2016. The -5.9% decrease in Normalized EBITDA is a result of redemptions as discussed above (LifeMark, Solowave, MAHC and Sequel) and reduced or no distributions from existing partners (SCR, Group SM, Kimco), offset by distributions from new partners (SBI, Accscient, ccComm, Unify) and follow on transactions with Sandbox and Federal Resources, net positive resets and lower corporate costs.

The decrease in earnings is a result of lower revenue (or distribution's from partners) in 2017, $42.5 million of impairment & other charges related to Group SM preferred units ($41.0 million) and discount on KMH promissory note ($1.5 million), bad debt expense on unpaid distributions ($9.8 million), a reserve on the unsecured promissory note ($5.4 million) from Group SM, a $0.5 million bad debt expense on the SHS promissory note, a $5.1 million reserve on the Phoenix promissory note (a note held by Phoenix Holdings Limited a company controlled by the former principals of KMH), a $2.6 million reserve on the Kimco long term accounts receivable and promissory note, and $10.3 million of taxes, partially offset by $26.7 million from the redemption of Sequel Units. The comparable period included a $20.3 million gain on the redemption of LifeMark, Solowave and MAHC units (including $5.3 million in additional distributions on redemption), partially offset by a $7.0 million impairment of KMH units and a $2.4 million bad debt related to KMH distributions and an allowance for Kimco long-term receivable.

The Corporation also normalizes foreign exchange realized and unrealized gains and losses which are recurring but not considered part of operating results. These included a $1.3 million realized gain on foreign exchange contracts (2016 - $3.5 million gain) and a $10.6 million loss on non-cash foreign exchange items (2016 - $8.5 million loss). The foreign exchange loss is the impact of the change in the US exchange rate on the USD loan to the Corporation's wholly-owned US subsidiary, and the Federal Resources loan receivable, offset by the changes in the value of outstanding foreign exchange contracts and external US denominated debt.

Reconciliation of Net Income to EBITDA (thousands)	Year ended December 31, 2017	Year ended December 31, 2016
Earnings	**$ 11,882**	**$ 66,553**
Adjustments to Net Income:		
Amortization and depreciation	268	279
Finance costs	6,582	5,882
Income tax expense	10,274	19,589
EBITDA	**29,006**	**92,303**
Normalizing Adjustments		
Gain on disposal of investment	(26,575)	(20,271)
Impairment and other charges	42,491	7,000
Bad Debt Expense	23,430	2,442
Distributions received on redemption (MAHC)	-	(5,318)
Unrealized (gain) / loss on foreign exchange	10,649	8,502
Realized (gain) on foreign exchange	(1,370)	(3,473)
Accretion of prom. notes & other receivables	(150)	-
Penalties and Fees	(502)	-
Normalized EBITDA	**$ 76,979**	**$ 81,842**

Due to the number and magnitude of the non-recurring items, the Corporation is also showing a Normalized Earnings in the following table:

Normalized Earnings	Year ended December 31	
in thousands except on per share basis	2017	2016
Earnings before the undernoted	$ 39,386	$ 100,526
Finance costs	(6,582)	(5,882)
Impairment and other charges	42,491	7,000
Bad debt expense & reserve	23,430	2,442
(Gain)/Loss on redemption	(26,575)	(20,271)
Normalized Earnings pre-tax	**$ 72,150**	**$ 83,816**
Total income taxes	(10,274)	(19,589)
Tax normalizations for above items	4,246	(509)
Normalized Earnings	**$ 66,122**	**$ 63,718**
Normalized Earnings per share		
Basic	$1.81	$1.75
Fully diluted	$1.80	$1.74

Quarter Ended December 31, 2017 Compared to Quarter Ended December 31, 2016

Three Months Ended December 31	2017	2016	% Change
Revenue per share	$2.44	$2.75	-11.3%
Normalized EBITDA per share	$2.11	$2.25	-6.2%
Net cash from operating activities per share	$1.85	$2.02	-8.4%
Dividends per share	$1.62	$1.62	+0.0%
Basic earnings per share	$0.33	$1.83	-82.0%
Fully diluted earnings per share	$0.32	$1.81	-82.3%
Normalized basic earnings per share	$1.81	$1.75	+3.4%
Weighted average basic shares outstanding (000's)	36,447	36,336	

For the three months ended December 31, 2017, revenue per share decreased by 21.3% due to the $5.3 million of additional distributions received on the redemption of MAHC that occurred late in the prior year period. Excluding the excess MAHC distributions, revenue per share was slightly higher (+0.5%) than the comparable three month period as new partner distributions in 2017 of $4.6 million (SBI, Accscient, ccComm), follow on transactions with (Sandbox and Federal Resources) and higher distributions from positive resets was fully offset by the Sequel ($4.0 million) and MAHC redemption ($0.9 million of normal course distributions) and the recognition of distributions as received from Group SM for an impact of $1.5 million.

Normalized EBITDA of $0.51 per share decreased by 5.6% due to lower distributions as noted above and realized gains offset by lower overhead. Net cash from operating activities was $0.55 per share, a decrease of 36.0% compared to the year ending December 31, 2017. The decrease is a result of lower distributions and a realized gain as the comparative period included an additional US$3.9 million (approximately CAD$5.3 million and $0.14 per share) of distributions from the MAHC redemption and a realized foreign exchange gain of $5.2 million, partially offset by lower overhead. Dividends paid were $0.405 per share during the three months ended December 31, 2017, an actual payout ratio of 76.6%, lower than expected due to the timing of changes in working capital.

Partner Revenue (000's)	Quarter ended December 31, 2017	Quarter ended December 31, 2016	% Change	Comment
SBI	$ 3,509	$-	+100.0%	Contribution closed Aug-17
DNT	3,434	3,505	-2.0%	Gross revenue reset +6% in Jan-17, offset by US$2M redemption, impact of FX
FED	2,783	2,621	+6.2%	Gross revenue reset +6% in Jan-17 and additional $6.9M contribution in Apl-16
Planet Fitness	2,078	2,087	-0.4%	Same club sales reset +5% in Jan-17 and impact of FX
Labstat	1,985	1,025	+93.7%	Gross revenue reset +6% in Jan-17 and significant increase in cash flow sweep
Sandbox	1,491	1,100	+35.5%	Max reset of +6% Jan-17 and additional contribution in Sept-17 and impact of FX
Providence	1,429	1,502	-4.9%	Impact of FX
LMS	1,181	1,188	-0.6%	Gross profit -1.6% Jan-17, and impact of FX
Agility Health	971	1,021	-4.9%	Impact of FX
Accscient	953	-	+100.0%	Contribution closed Jun-17
Unify (formerly Matisia)	857	835	+2.6%	Contribution closed Oct-16
End of the Roll	321	292	+10.0%	Estimate flat same store sales May-17 updated for +3.3% in Q4-17
SCR	300	-	+100.0%	Pause in distributions Jun-16, restarting partial distributions Jul-17
ccComm	290	-	+100.0%	Contribution closed Jan-17, follow on contribution in Aug-17
Group SM	-	1,594	-100.0%	Recording distributions as received
Sequel	-	4,085	-100.0%	Same program sales increase Jul-17 and impact of FX
MAHC	-	5,982	-100.0%	Redemption of all units in Dec-16
	$ 21,582	**$ 26,838**	**-19.6%**	
Interest & other	56	430	-87.1%	Interest on promissory notes, offset by negative accretion during the period
Total	**$ 21,638**	**$ 27,268**	**-20.6%**	

Finance costs were $1.6 million compared to $1.5 million in the prior year, a 6.2% increase was due to higher interest rates on US and CDN denominated debt and a higher average debt amount outstanding (average outstanding debt of $127.3 million for the three months ending December 31, 2017 versus to $121.7 million for the comparable period in 2016).

Salaries and benefits were $0.6 million in the period, an increase of 5.0% compared to the prior year period. The increase is due to slightly higher base compensation.

Corporate and office were $0.7 million in the period an increase of 12.5% compared to the comparable three month period. The increase is due to higher travel costs for new and existing investments.

Legal and accounting fees were $0.7 million in the period, an increase of 1.2% compared to the comparable three month period. The increase is due to the Corporation incurring higher corporate legal fees regarding the new banking facility, partially offset by less fees related to existing partners.

For the three months ended December 31, 2017 the Corporation incurred stock-based compensation expenses of $0.8 million (2016 - $0.5 million) which includes: $0.5 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $0.5 million); and $0.3 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $0.3 million).

The Corporation recorded earnings of $11.4 million, EBITDA of $8.1 million and Normalized EBITDA of $18.5 million for the three months ended December 31, 2017 compared to earnings of $21.6 million, EBITDA of $28.4 million and Normalized EBITDA of $19.6 million for the three months ended December 31, 2016. The -5.2% decrease in Normalized EBITDA is a result of lower revenue and to slightly higher overhead. Distributions excluding those received on redemption from MAHC were consistent with the comparative period.

The decrease in earnings is a result of lower distributions, a lower foreign exchange gain, and a $13.6 million bad debt expense on promissory notes outstanding (Group SM unsecured note - $5.4 million, SHS promissory note - $0.5 million, Phoenix promissory note - $5.1 million and Kimco long-term receivable - $1.9 million and Kimco promissory note – $0.7 million) partially offset by income taxes increasing earnings by $5.0 million in the three months ended December 31, 2017 compared to a $5.2 million tax expense in the comparable period.

The Corporation also normalizes realized and unrealized foreign exchange gains and losses which are recurring but not considered part of operating results. These included a $0.5 million realized gain on foreign exchange contracts (2016 - $5.2 million gain) and a $2.0 million gain on non-cash foreign exchange items, (2016 - $0.2 million loss). The foreign exchange gain is the impact of the change in the US exchange rate on the USD loan to the Corporation's wholly-owned US subsidiary, and the Federal Resources loan receivable offset by the changes in the value of outstanding foreign exchange contracts, and external US denominated debt.

Reconciliation of Net Income to EBITDA (thousands)	Three Months Ended December 31, 2017	Three Months Ended December 31, 2016
Earnings	**$ 11,410**	**$ 21,645**
Adjustments to Net Income:		
Amortization and depreciation	67	71
Finance costs	1,575	1,483
Income tax expense	(4,964)	5,249
EBITDA	**$ 8,088**	**$ 28,448**
Normalizing Adjustments		
Gain on disposal of investment	-	(94)
Bad Debt Expense	13,617	1,589
Distributions received on redemption (MAHC)	-	(5,318)
Unrealized (gain) / loss on foreign exchange	(2,081)	149
Realized (gain) on foreign exchange	(852)	(5,227)
Penalties and Fees	(502)	-
Accretion of prom. notes & other receivables	252	-
Normalized EBITDA	**$ 18,523**	**$ 19,547**

Due to the number and magnitude of the non-recurring items, the Corporation is also showing a Normalized Earnings in the following table:

Normalized Earnings	Three months ended December 31	
in thousands except on per share basis	**2017**	**2016**
Earnings before the undernoted	$ 5,940	$ 28,526
Finance costs	(1,575)	(1,483)
Bad debt expense & reserve	13,617	1,589
(Gain)/Loss on redemption	-	(94)
Normalized Earnings pre-tax	**$ 17,982**	**$ 28,538**
Total income taxes	4,964	(5,249)
Tax normalizations for above items	(1,911)	(67)
Normalized Earnings	**$ 21,035**	**$ 23,222**
Normalized Earnings per share		
Basic	$0.58	$0.64
Fully diluted	$0.57	$0.63

PRIVATE COMPANY PARTNER UPDATE

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

For the revenues received in USD, the Corporation has purchased monthly forward contracts locking in approximately 50-75% of the foreign exchange rate for the next twelve months and approximately 25-50% of the following twelve months USD distributions.

The following is a summary of each of the Partners recent financial results. Included in this summary will be a comment on the Partners' Earnings Coverage Ratio ("ECR"). Because this information from time to time is based on unaudited information provided by Private Company Partner 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 1.2x, 1.2x 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, the Corporation has disclosed the percentage of current annualized revenue based on the expected distributions from each Partner for the next twelve months based on information at March 5, 2018. Interest from promissory notes is 1.6% of total revenue from Partners.

Accscient *4.0% of revenue*

Description	Accscient provides IT Staffing, Consulting, and Outsourcing services and specializes in Digital Infrastructure Management, Enterprise Resource Planning, Business Intelligence and Database Administration. Through its operating businesses (i) Norwin Technologies, (ii) Premier IT Solutions and (iii) Appridat Solutions, Accscient provides these services to its diverse customer base by leveraging a global delivery platform, led by a seasoned management team, to ensure reliable, proven and innovative solutions.
Contribution History	Alaris contributed US$20.0 million (the "Accscient Contribution") into Accscient LLC ("Accscient") in exchange for an annualized distribution of US$3.0 million (the "Accscient Distribution"). The Accscient Contribution is made up of US$14.0 million of permanent units (the "Permanent Units") as well as US$6.0 million of redeemable units (the "Redeemable Units"). The Redeemable Units can be redeemed at par at any time up to the third anniversary following the closing of the Accscient Contribution at Accscient's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.
Performance	Based on unaudited statements provided by management for the year ended December 31, 2017, revenue and EBITDA are consistent with the comparable period. The Accscient Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross profit from 2018 vs 2017 and has a collar of plus or minus 5%.
Fair Value	The fair value of the Accscient units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the Accscient units is evaluated each quarter. The fair value of the Accscient units remains at US$20.0 million at December 31, 2017.
ECR	The Earnings Coverage Ratio declined slightly from last quarter and remains between 1.2x and 1.5x, unchanged from the previous period and the date of investment.

Agility Health *4.1% of revenue*

Description	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.
Contribution History	Since December 2012, the Corporation has purchased preferred LLC units in Agility Health, LLC ("Agility") for an aggregate acquisition cost of US$20.1 million. Annual growth and decline in Agility's distributions to Alaris is capped at 6% and is based on the change in same clinic sales.
Performance	Subsequent to December 31, 2017, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Total consideration to Alaris was US$26.7 million which consists of US$22.23 million for redemption of preferred units (US$2.2 million premium over cost base), US$2.58 million of accrued distributions and US$1.58 million of outstanding promissory notes and interest. See page 20 for additional details.
Fair Value	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 was increased by US$0.7 million from US$20.1 million to US$20.8 million during the three month period to reflect the redemption amount received subsequent to December 31, 2017.

ccComm *1.2% of revenue*

Description	ccComm is a Sprint retailer with over 65 locations throughout the Northwest and Central U.S. ccComm is expected to use the partnership to pursue a roll-up strategy in which Salaris expects to contribute additional capital to support ccComm's growth program.
Contribution History	In January 2017, the Corporation purchased preferred units in ccComm for US$4 million (CAD$5.4 million). The Corporation contributed an additional US$2.2 million (CAD$2.75 million) in August 2017 to complete an acquisition of additional Sprint retail locations.
Performance	ccComm revenue and EBITDA have increased in the year ended December 31, 2017 compared to the same period in 2016. The combined annual distribution (currently US$0.93 million) will grow or decline based on net revenue to a cap of +/- 6%. Based on unaudited results, the Corporation expects the ccComm distribution to reset +6%, effective January 1, 2018.
Fair Value	The fair value of the units are unchanged with their original contribution amount. The fair value of the ccComm units will fluctuate each quarter with foreign exchange rates but the underlying valuation of the ccComm units is evaluated each quarter.
ECR	The Earnings Coverage Ratio at December 31, 2017 has increased from last quarter and is now over 2.0x.

DNT Construction *14.7% of revenue*

Description	DNT specializes in turnkey civil construction services to residential, commercial and municipal end markets including excavation, the installation of wet and dry utilities such as electrical, gas, sewage and water 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.
Contribution History	In June 2015, the Corporation purchased preferred units in DNT, for an aggregate acquisition cost of US$70 million. US$30 million of the preferred units were redeemable at par with a mandatory annual redemption amount based on a predetermined formula commencing in 2017. During the year ended December 31, 2017, DNT redeemed US$2 million of the redeemable units as per a formula in the operating agreement. The Redeemable Units can be redeemed at par at any time up to the fifth anniversary following the closing of the DNT Contribution at DNT's discretion. After the fifth anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, DNT's revenue is ahead of the prior year and EBITDA is behind the comparable period. Annual growth or decline in DNT's annualized distributions to Alaris is capped at 6% and is based on gross revenues. Based on unaudited results, the Corporation expects the 2018 DNT distribution to reset +6%.
Fair Value	There was no change in the fair value of the DNT units during the year ending December 31, 2017. The fair value of the DNT units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has decreased slightly since last quarter and is now just below 1.5x (between 1.2x and 1.5x).

End of the Roll *1.3% of revenue*

Description	End of the Roll is a Canada-wide retail flooring franchise system and completed its twelfth fiscal year as an Alaris partner on April 30, 2017. The renovation industry has been relatively stable year over year and End of the Roll's results reflect that.
Contribution History	The Corporation's original contribution of $7.2 million 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.
Performance	Based on unaudited financial statements for the seven months ended November 30, 2017 (year end of April 30th), revenue and EBITDA are both exceeding the comparable period. Based on audited financial statements for the year ending April 30, 2017, End of the Roll revenue and EBITDA increased compared to the previous year. This resulted in a +3.2% positive reset.
Fair Value	The End of the Roll transaction is recorded as an intangible asset, amortized over 80 years and is reviewed for impairment when triggers exist. No impairment triggers exist at this time.
ECR	The Earnings Coverage Ratio for End of the Roll improved since the last quarter and continues to be well over 2.0x.

Federal Resources *13.9% of revenue*

Description	Federal Resources is a leading value-added provider of mission critical products and solutions to defense, first responder, homeland security and maritime end users in the United States. 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.
Contribution History	In June 2015, the Corporation announced a US$7.0 million subscription for preferred stock (the “FED Units”) of Federal Resources and a US$40 million secured subordinated loan (the “FED Loan”) to Federal Resources, for an aggregate cost of US$47 million. In exchange for the FED Units and Loan, the Corporation was initially entitled to a combined US$7.1 million of annual distributions. In April, 2016 Alaris made an additional contribution of US$6.5 million in exchange for preferred units in a subsidiary of Federal Resources providing an annual distribution of US$0.9 million, which will be adjustable starting in 2018, subject to the same +/-6% collar. In December 2017, Alaris made a third contribution of US$13.5 million in exchange for preferred units in a subsidiary of Federal Resources providing an annual distribution of US$1.8 million, which will be adjustable in 2019, subject to the same +/-6% collar and a no call period of 18 months. The contribution was used to fund an acquisition.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, Federal Resource’s revenue and EBITDA have increased +6% compared to 2016. Commencing in January, 2017, Alaris became entitled to receive an annual preferred dividend based on an increase to Federal Resources' gross revenues (subject to a +/-6% collar and based on a predetermined formula). Based on unaudited results, the Corporation expects the FED distribution is expected to reset +6% in 2018.
Fair Value	The FED Loan was made in June 2015 and the fair value of the FED Loan equals the face value and fair value of US$40 million. During the year ending December 31, 2017, the fair value of the FED units increased by US$2.64 million (US$1.3 million for the three months ended December 31, 2017) as expectations for future distributions increased. The fair value of the FED Units and the FED Loan in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for FR has increased slightly since the last quarter and remains between 1.2x and 1.5x.

Kimco *0.0% of revenue*

Description	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.
Contribution History	In June 2014, the Corporation purchased preferred units in Kimco for an aggregate acquisition cost of US$29.2 million. The Corporation purchased additional preferred units for US$3 million in December 2015 and US$2 million in November 2016. Annual growth or decline in Kimco`s annualized distributions to Alaris is capped at 6% and is based on gross revenue. The Corporation contributed an additional US$4 million for the year ended December 31, 2017, by way of an unsecured promissory note (“Kimco Prom Note”), to reduce Kimco’s total senior debt outstanding. Interest of 8% is being paid on a monthly basis on the Kimco Prom Note.
Performance	As disclosed previously, Kimco was in breach of certain financial covenants with its senior lenders which resulted in the distribution to Alaris being suspended in July 2015. At December 31, 2016, US$4.4 million of unpaid Kimco distributions that Alaris expects to eventually collect were moved from trade and other receivables into long-term promissory notes and other receivables. The Corporation believes

	the repayment of this amount over the long-term is reasonably assured. Kimco management has made significant improvements in the company's cost structure in order to improve cash flow management. Subsequent to December 31, 2017, Kimco is in the process of replacing its senior lender with a new bank paving the way to the restart of some level of distributions in 2018. As part of the refinancing the Corporation is expected to replace US$6 million of subordinated debt in Kimco, paying cash interest of 12% interest per annum. During the current year, Kimco completed a transaction with Alaris' support that saw the common equity owned by previous management sold to the group that was brought in to oversee a turnaround of the business, a positive indication of the long-term prospects of the business. Based on unaudited financial statements provided by Kimco management, for the year ended December 31, 2017 revenue is consistent with prior year and EBITDA is ahead of the comparable period due to cost efficiencies implemented by the new management group.
Fair Value	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 are unchanged for the year ended December 31, 2017.
ECR	The Earnings Coverage Ratio for Kimco has improved since last quarter but remains below 1.0x based on the last twelve months (subsequent to management changes) when considering all distributions owed to Alaris.

Labstat International *8.6% of revenue*

Description	Labstat is a global leader in regulation-driven analysis of tobacco smoke and products as well as deemed tobacco products such as electronic cigarettes.
Contribution History	The Corporation purchased partnership units in Labstat International, ULC ("Labstat") for an aggregate acquisition cost of $47.2 million over two tranches. Annual growth and decline in Labstat's distributions to Alaris are capped at 6% and is based on the change in gross revenues.
Performance	In February 2014, Alaris agreed to temporarily restructure the form of its distributions, reducing the fixed portion to 7.50% 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. In July 2017, the arrangement for modified distributions was extended to December 31, 2017 with a higher fixed monthly payment ($350 thousand per month compared to the previous $285 thousand per month) and a quarterly catch up of the variable portion compared to an annual catch up under the previous arrangement. Based on unaudited financial statements prepared by management for the year ended December 31, 2017, revenue and EBITDA are both considerably ahead of the comparable period. The Corporation has accrued total distributions from Labstat of $7.94 million for 2017. The $4.2 million accrual for the cash flow sweep earned to date in 2017 is expected to be received in April 2018. The increase in revenue resulted in a positive +6% reset increasing 2018 distribution to $8.4 million to be received in equal monthly installments.
Fair Value	During the year ended December 31, 2017, the fair value of the Labstat units was increased by $12.1 million as the Corporation adjusted the 2017 distribution to the full $7.9 million compared to the original forecast of $6.5 million, which also increased our expectation of distributions in future periods.
ECR	The Earnings Coverage Ratio has increased significantly since last quarter and is now in the 1.5x to 2.0x range and includes the full distributions owed to the Corporation.

LMS Reinforcing Steel Group *5.0% of revenue*

Description	LMS is a western Canadian concrete reinforcing steel fabricator and installer with operations in British Columbia, Alberta and Southern California.
Contribution History	The Corporation's original contribution into LMS was in 2007 subsequent to which it has since contributed a total of $54 million. The Corporation completed a follow on contribution in 2016 (to a U.S. affiliate) of US$4.35 million to help LMS fund an acquisition in a new market where they have similar customers. Total gross profit is the reset 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.
Performance	Based on unaudited financial statements prepared by management for the year ended December 31, 2017, revenue is slightly ahead with EBITDA slightly trailing the comparable period.
Fair Value	The fair value of the Canadian LMS units were increased by $1.0 million due to a better than expected reset for 2018. Earlier in the year the fair value of the units were decreased by $875 thousand due to the 2017 distributions resetting -1.2% compared to flat as originally expected. The LMS US units' fair value remain unchanged at US$4.35 million at December 31, 2017.
ECR	The Earnings Coverage Ratio for LMS is consistent with last quarter and remains at the high end of the range between 1.0x and 1.2x.

PF Growth Partners *9.5% of revenue*

Description	Planet Fitness, through its affiliates, operates over 55 fitness clubs in Maryland, Tennessee, Florida and Washington (as of December 31, 2017) as a franchisee of Planet Fitness®. Planet Fitness has grown to become one of the top 3 largest non-corporate affiliated franchisees in the Planet Fitness® system.
Contribution History	In November 2014, the Corporation purchased preferred units in Planet Fitness, for an aggregate acquisition cost of US$35 million. In July 2015, the Corporation purchased an additional US$5 million of preferred units. Annual growth or decline in Planet Fitness' annualized distribution is capped at 5% and is based on same club sales.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, Planet Fitness' revenue and EBITDA are both considerably ahead of the prior year due to organic growth of their existing clubs. Based on unaudited results, the Corporation expects the 2018 Planet Fitness distribution to reset +5% effective January 1, 2018.
Fair Value	The fair value of the Planet Fitness units increased by US$0.7 million for the three months ended December 31, 2017 for a total of US$1.2 million in the year ended December 31, 2017 as expectations for future distributions continued to increase. The fair value of the Planet Fitness units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for Planet Fitness is consistent with last quarter and remains above 2.0x.

Providence Industries — *6.3% of revenue*

Description	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.
Contribution History	In April 2015, the Corporation contributed US$30.0 million to Providence. Annual growth or decline in Providence's annualized distributions of US$4.5 million to Alaris is capped at 5% and is based on the change in same customer sales.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, Providence's revenue and EBITDA are both significantly ahead of the prior year, resulting in a maximum reset of +5% beginning January 1, 2018.
Fair Value	The fair value of the Providence units increased by US$0.5 million during the three month period ending December 21, 2017, for a total increase of US$2.0 million for the year ended December 31, 2017 as expectations for future distributions have continued to increased. The fair value of the Providence units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The earnings coverage ratio for Providence has decreased slightly since last quarter and remains well over 2.0x.

Sandbox — *7.4% of revenue*

Description	Sandbox offers a wide range of marketing and advertising services including strategic marketing and planning, creative development for all media and digital strategy solutions including CRM and data analytics for clients in a variety of industries within the US and Canada. 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.
Contribution History	In March 2016, the Corporation announced the purchase of preferred units in Sandbox for an aggregate acquisition cost of US$22 million in exchange for US$3.3 million of initial distributions. The Corporation contributed an additional US$6.0 million in September 2017 to finance an acquisition completed by Sandbox and an a further US$7.0 million in December 2017 to fund a performance earn out, in exchange for a combined distribution of US$1.9 million. Annual growth or decline in Sandbox's annualized distributions of US$5.4 million to Alaris is capped at 6% and is based on the change in net revenue.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, revenue and EBITDA are both ahead of the comparable period. Based on unaudited results, the Corporation expects the 2018 Sandbox distribution to reset +6%.
Fair Value	The fair value of the Sandbox units increased by US$0.2 million during the three month period ending December 21, 2017, for a total increase of US$1.2 million for the year ended December 31, 2017 as expectations for future distributions have continued to increased. The fair value of the Sandbox units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio has decreased slightly since last quarter and is now between 1.2x and 1.5x.

SCR Mine Services 1.2% of revenue

Description	SCR provides mining, surface and underground construction, electrical and mechanical services to the Canadian mining industry.
Contribution History	In May 2013, the Corporation purchased partnership units in SCR Mining and Tunneling, LP ("SCR") for an aggregate acquisition cost of $40 million. Annual growth or decline in SCR's distributions to Alaris is capped at 6% and are based on net revenue.
Performance	Based on unaudited financial statements provided by management for the year ended December 31, 2017, SCR's revenue and EBITDA has improved significantly versus the comparable twelve month period. SCR has significant cash on its balance sheet to invest in capex and working capital as the business continues to rebound. For 2017, SCR restarted distributions of $100 thousand per month beginning July 2017 ($100 thousand distribution received for each month from July to December 2017). The Corporation intends to amend the agreement with SCR to include a fixed portion of $100 thousand per month and a variable format based on available free cash flow with the ability to catch up previously unpaid distributions; the exact structure and terms of those amendments are still being finalized.
Fair Value	The fair value of the SCR units were decreased by $4.29 million during the year ended December 31, 2017 as expectations for the timing to return to full distributions has been pushed out but results have continued to improve.
ECR	The Earnings Coverage Ratio for SCR improved since the last quarter and remains below 1.0x when considering full distributions but at the current distribution rate of $1.2 million the Earnings Coverage Ratio is between 1.5x and 2.0x.

SBI 14.7% of revenue

Description	SBI is a management consulting firm specializing in sales and marketing that is dedicated to helping companies reach their sales objectives. SBI conducts in-depth market research and partners with business leaders to develop strategies that enhance performance and drive results. Through evidence-based methods, SBI creates actionable procedures that, once embraced and adopted, result in lasting success.
Contribution History	In August 2017, the Corporation contributed US$85.0 million in SBI, in return for an annualized distribution of US$11.05 million. The distribution will reset based on gross revenue with a cap of +/- 8%, with the first reset in January 2019. The SBI Contribution is made up of US$75.0 million of permanent units (the "Permanent Units") as well as US$10.0 million of redeemable units (the "Redeemable Units"). The Redeemable Units can be redeemed at par at any time up to the third anniversary following the closing of the SBI Contribution at SBI's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.
Performance	Based on unaudited information provided by management for the year ended December 31, 2017, revenues and EBITDA are consistent with the prior year.
Fair Value	The fair value of the SBI units remained unchanged from the contributed amount. The fair value of the SBI units in Canadian dollars will fluctuate each quarter with foreign exchange rates.
ECR	The Earnings Coverage Ratio for SBI is consistent with the time of investment and is between 1.2x and 1.5x based on actual result since the August 31, 2017 contribution.

SM Group — *0.0% of revenue*

Description	Group SM 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.
Contribution History	Since November 2013, the Corporation has purchased partnership units in SM Group International, LP ("Group SM") for an aggregate acquisition cost of $40.5 million. Annual growth or decline in Group SM's distributions to Alaris is capped at 6% and is based on gross revenue. Since June 2015, the Corporation has also loaned $17 million of unsecured promissory notes out of a maximum $17 million demand facility as at December 31, 2017. During the year ended December 31, 2017, an additional $10 million of secured promissory notes was provided to Group SM to provide liquidity in lieu of a senior revolving credit facility, the Corporation determined that providing the revolving facility was beneficial to Group SM as opposed to introducing another new external senior debt provider prior to the resolution of the international dispute. The $10 million has first secured position at Group SM with respect to accounts receivable and collectability is not a concern.
Performance	Based on unaudited financial statements for the year ending December 31, 2017, Group SM's revenue and EBITDA were both down versus the comparable period. Group SM was in breach of certain financial covenants and its senior lender suspended the monthly distribution to Alaris beginning in Q3 2015 continuing until March 31, 2017 when the senior lender was replaced with a new lender. Until further notice, the Corporation will record distributions only as received, with $500 thousand received during 2017 and nothing received in the last six months of 2017. The Corporation is working with Group SM management on a long-term plan that will ensure the business can continue to provide services to its customers without interruption. The Corporation will continue to pursue all that is owed to the Corporation, and a strategic process is underway, see page 21 for additional information. During the year ended December 31, 2017, the Corporation collected from Group SM $1.5 million of interest on the unsecured promissory notes representing all interest owed up to December 31, 2016. Interest is current on the secured promissory note.
Fair Value	As discussed above, the fair value of the Group SM units was reduced to nil during the year ended December 31, 2017, and the amounts were charged to Impairment and other charges on the Corporation's income statement.
ECR	The Earnings Coverage Ratio for Group SM is below 1.0x when considering the distributions that should have been paid to Alaris, consistent with the previous quarter.

Unify (formally referred to as Matisia) *3.6% of revenue*

Description	Matisia is a Seattle, Washington-based management consulting firm that works with companies to provide innovative, customized consulting solutions across four primary service lines: Business Intelligence, Enterprise Resource Planning Services, Project Leadership & Product Management, and Organizational Change Management.
Contribution History	In October 2016, Salaris USA (wholly owned subsidiary of Alaris USA Inc.) made a contribution of US$18.0 million (comprised of US$12 million of permanent units and US$6 million of redeemable units) to Unify LLC (the "Unify Contribution") in exchange for an annual distribution of US$2.7 million (the "Unify Distribution"). The Redeemable Units can be redeemed at any time at par by Unify, and entitle Alaris to an annual distribution of US$0.9 million out of the US$2.7 million total distributions.
Performance	Based on unaudited financial statements prepared by management for the year ended December 31, 2017, revenue and EBITDA are consistent with the comparable period, and exceeded forecast amounts. The Unify Distribution will reset based on Same Client Revenue with a cap of +/- 5%, based on unaudited results the 2018 distribution is expected to have a positive reset of approximately 2%.
Fair Value	The fair value of the Unify units increase by US$1.2 million to US$19.2 million based on a better than expected 2017.
ECR	The Earnings Coverage Ratio for Unify has increased slightly since last quarter and remains between 1.5x to 2.0x.

SUBSEQUENT EVENTS

Heritage Restoration, Inc. *2.9% of revenue*

Description	Heritage is a leading specialty contractor providing masonry and masonry related services to the commercial building industry. With a focus on the restoration of existing structures, Heritage's services include masonry procurement, installation and restoration, concrete structure restoration, waterproofing and coating repair, Heritage provides quality customer service and workmanship throughout the entire New England area, employing over 100 highly skilled masons; carpenters; and laborers during peak times.
Contribution History	On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC ("Heritage"), pursuant to which the Corporation invested US$15.0 million ("Heritage Contribution") in exchange for preferred units in Heritage (the "Heritage Units"). The Corporation is entitled to an annual distribution of US$2.25 million ("Heritage Distribution") for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage Units are redeemable at par at any time.
Performance	The performance metric dictating the annual percentage change in the Heritage Distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage Contribution was used to fund the management buyout of the existing shareholder.
ECR	The Earnings Coverage Ratio for Heritage at the time of the investment is between 1.5x to 2.0x.

Increase in Credit Facility

Subsequent to December 31, 2017, the Corporation received an increase in their revolving credit facility which included (i) an increase in capacity to $280 million ($200 million as of December 31, 2017); (ii) an increase in the accordion facility to $70 million ($50 million as of December 31, 2017). The maximum senior debt to contracted EBITDA was increased to 2.5:1 which can extend to 3:1 for a period of 90 days (previously 1.75x with an extension to 2.25x, this amendment was effective for the quarter ending December 31, 2017). The tangible net worth, fixed charge coverage ratio covenants, interest rate spread, and standby fees remained consistent with the prior agreement.

Agility

Subsequent to December 31, 2017, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US$22.2 million for the preferred units Alaris holds in Agility LLC, which includes a premium of US$2.1 million over Alaris' original cost of US$20.10 million (currently held at a fair value of $20.0 million); (ii) US$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US$1.5 million of the repurchase price to be paid to Alaris will be placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris. Total proceeds received by the Corporation went toward debt reduction of US$26.5 million (approximately CAD$34.0 million against the CAD$173.5 million outstanding at December 31, 2017.

REDEMPTION OF KMH UNITS

On June 19, 2017, total consideration of $30.5 million ($9.8 million of cash and $20.7 million of secured promissory notes) was exchanged for the redemption of all outstanding preferred units (the "Alaris Preferred Units") and the outstanding $3.5 million promissory note as a result of the sale of the majority of KMH's Canadian clinics to a third party (the "Third Party Sale"). The $20.7 million of promissory notes (the "Phoenix Notes") are issued by Phoenix Holdings Limited ("Phoenix"), a company controlled by the former principals of KMH, and are secured by way of first security on Phoenix's U.S. business that was carved out of the Third Party Sale, a right to the residual value in certain real estate assets owned by Phoenix and its principals, and a preferred liquidation position on the equity in the Canadian business retained by Phoenix as a result of the Third Party Sale.

As a result of the redemption of all outstanding KMH units, the Corporation has no remaining investments at fair value as of December 31, 2017 relating to KMH. The Corporation expects to receive the $20.7 million Phoenix Notes in three different tranches. The Corporation expects to receive value for the first tranche totaling $12.4 million within the next twelve months with the remaining $8.3 million collected over a longer term period as Phoenix continues with the strategic process and recapitalization of their U.S. business. Subsequent to December 31, 2017, the Corporation has the ability to compel the U.S. business to be sold. Phoenix has acknowledged this right and a strategic process to realize on the debt is under way.

As the redemption of the KMH units and the $3.5 million promissory notes resulted in an extinguishment of financial assets, the Corporation recorded an initial loss of $1.5 million, representing the difference between the carrying value of the assets given up and the fair value of the consideration received. The fair value of the consideration received was calculated as the cash proceeds plus the face value of the short term secured note plus the discounted value of the long-term secured note. The long term secured note of $8.3 million was discounted using a five year term and a 5% discount rate to arrive at the fair value. The fair value difference will be accreted to its face value over its estimated five year term, ($0.2 million was accreted during the twelve months ended December 31, 2017). See Promissory and Other Receivable table later in this note 5 for additional information on the valuation of these notes as at December 31, 2017.

REDEMPTION OF SEQUEL UNITS

On September 1, 2017, Sequel redeemed all units for total proceeds of US$95.9 million (approximately CAD$121 million) (the "Sequel Redemption"). The Corporation received US$91.8 million (approximately CAD$114.8 million) at close, the remainder of the proceeds were received prior to December 31, 2017. The Corporation recognized a US$21.6 million (approximately CAD$26.6 million) gain through earnings as proceeds on redemption (US$95.9 million) exceeded total capital invested (US$74.1 million). The Corporation paid US$12.8 million (CAD$16.0 million) of taxes from the gain on redemption of the Sequel units during the year ended December 31, 2017. These taxes were a direct result of the proceeds on redemption of the Sequel units exceeding the cost basis of the units.

IMPAIRMENT OF GROUP SM UNITS

During the year ended December 31, 2017, Group SM received the final judgment related to an international arbitration process and the amount awarded was substantially less than anticipated. Therefore, Group SM was not in a position to repay the previously accrued $9.8 million in unpaid distributions. The Corporation therefore recorded a $9.8 million bad debt expense in Q3 2017. The fair value of the preferred units were reduced in the year to nil in Q3 2017 as they are subordinate to the secured and unsecured debt on Group SM's balance sheet. The permanent impairment of $41.0 million of the Group SM units was recorded through the statement of profit or loss.

As of December 31, 2017 the Corporation has $27 million owing from Group SM, including a credit facility and promissory notes ($10 million first priority secured and $17 million of unsecured), outstanding. The smaller judgment also means that the majority of the short-term unsecured notes of $17 million will only be collected after the successful recapitalization or sale of the business, thus moved from current assets to non-current assets. Group SM is currently undergoing a full restructuring process. Subsequent to the restructuring the Corporation believes there will be sufficient enterprise value to repay in full the $27 million of secured and unsecured promissory notes.

BAD DEBT EXPENSE AND RESERVE

During the year ended December 31, 2017, the Corporation recorded a bad debt expense and reserve of $23.4 million, which is comprised of $10.2 million of write offs related to Group SM ($9.8 million) as discussed above and recorded in Q3 2017, and $0.5 million related to the SHS promissory note as a result of the Sears Canada, Inc. bankruptcy proceeding recorded in Q4 2017.

The Corporation also recorded a $13.1 million reserve on outstanding promissory notes in Q4 2017 with Group SM ($5.4 million), Phoenix ($5.1 million) and Kimco ($2.6 million) as the probability of receiving the entire amount outstanding, and the timing of collection is not certain. The Corporation expects and will continue to pursue recovery of the full notional value for all outstanding promissory notes.

LIQUIDITY AND CAPITAL RESOURCES

As at December 31, 2017 the Corporation has a $200 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. When Funded Debt to Contract EBITDA is below 2.25:1, Prime and USBRs are plus 2.25% and BAs and LIBOR are plus 3.25%. When Funded Debt to Contract EBITDA is above 2.25:1, Prime and USBRs are plus 2.75% and BAs and LIBOR are plus 3.75%, the Corporation realized a blended interest rate of 5.3% for the year ended December 31, 2017. At December 31, 2017, the facility was $173.5 million drawn.

At December 31, 2017, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1 (actual ratio is 1.97:1 at December 31, 2017); minimum tangible net worth of $450.0 million (actual amount is $598.4 million at December 31, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.07:1 at December 31, 2017).

Subsequent to December 31, 2017, the Corporation received an increase in their revolving credit facility, to a total of $280 million with an accordion of $70 million. The maximum senior debt to contracted EBITDA was increased to 2.5:1 (previously 1.75:1) which can extend to 3:1 for a period of 90 days (previously 2.25:1). The tangible net worth, fixed charge coverage ratio covenants, interest rate spread, standby fees and terms of the accordion facility remained consistent with the prior agreement.

In each month of 2017, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $59.0 million in aggregate). In each month of 2016, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $58.8 million in aggregate).

The Corporation had 36,481,247 voting common shares outstanding at December 31, 2017. The Corporation had working capital of approximately $40.7 million at December 31, 2017. 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 December 31, 2017 and December 31, 2016 is set forth in the tables below.

Working Capital	31-Dec-17	31-Dec-16
Cash	$35,475	$29,491
Prepayments	2,407	2,097
Foreign exchange contracts	1,430	-
Trade and other receivables	8,642	16,762
Total Current Assets	**$47,954**	**$48,350**
Accounts payable & accrued liabilities	1,707	3,057
Dividends payable	4,921	4,905
Foreign exchange contracts	-	712
Income tax payable	588	2,007
Total Current Liabilities	**$7,217**	**$10,682**
Net working capital at December 31st	**$40,737**	**$37,668**

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	At fair value through profit or loss	Fair value
Trade and other receivables	Loans and receivables	Amortized cost
Promissory notes and other receivable	Loans and receivables	Amortized cost
Investments at fair value	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
Foreign exchange contracts	At fair value through profit or loss	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 50-75% over a rolling twelve month period based on scheduled distributions to the Canadian parent and a portion of the scheduled distributions over a rolling 12 to 24 month period based distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any unrealized gain or loss on the contracts will be recognized in profit or loss. As at December 31, 2017, for the next twelve months, total contracts of US$26.8 million average $1.2969 CAD. For the following twelve months, total contracts of US$6.8 million USD average $1.2716 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:

31-Dec-17	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	$ (1,707)	$ (1,707)	$-	$-	$-
Dividends payable	(4,921)	(4,921)	-	-	-
Income tax (payable) / receivable	(588)	(588)	-	-	-
Loans and borrowings	(173,464)	-	-	-	(173,464)
Total	**$ (180,681)**	**$ (7,217)**	**$ -**	**$ -**	**$ (173,464)**

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

An evaluation was performed under the supervision and with the participation of the Corporation's management (including the CEO and CFO) of the effectiveness of the design and operation of the Corporation's disclosure controls and procedures, as defined in National Instrument 52-109. Based on that evaluation, the Corporation's management (including the CEO and CFO) concluded that the Corporation's disclosure controls and procedures were designed to provide a reasonable level of assurance over disclosures of material information and are effective as of December 31, 2017. The Corporation uses the 2013 Committee of Sponsoring Organization of the Treasury Commission (COSO) framework.

B. Management Report on Internal Controls over Financial Reporting

The Corporation's management, (including the CEO and CFO) have assessed and evaluated the design and effectiveness of the Corporation's internal controls over financial reporting as defined in National Instrument 52-109 as of December 31, 2017. The Corporation's assessment included documentation, evaluation and testing of its internal controls over financial reporting. Based on that evaluation, the Corporation's management concluded that the Corporation's internal controls over financial reporting are effective as defined by National Instrument 52-109.

There were no changes in internal controls during the year ended December 31, 2017 that have materially affected, or are reasonably likely to materially affect the Company's internal control over financial reporting.

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 five-year lease commencing July 2015 at its current location with total leasing commitments of $1.1 million.

Contractual Obligations	Total	< 1 year	1 – 3 years	4 – 5 years	> 5 years
Long term debt	$173,464	$-	$-	$173,464	$-
Office lease	1,068	421	647	$-	$-
Total Contractual Obligations	**$174,533**	**$421**	**$647**	**$173,464**	**$-**

TRANSACTIONS WITH RELATED PARTIES

The Company had no transactions with related parties for the years ending December 31, 2017 or 2016.

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

Key Management Personnel	2017	2016
Base salaries and benefits	$854	$876
Bonus	407	519
Share-based payments (non-cash)	2,033	520
Total	**$3,294**	**$1,916f**

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, valuation of accounts receivable and promissory notes and income taxes. Refer to the consolidated financial statements for the year ended December 31, 2017.

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

IFRS 9: Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, “Financial Instruments” (“IFRS 9”) to replace IAS 39, “Financial Instruments: Recognition and Measurement” (“IAS 39”).

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

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

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

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

IFRS 9 is effective for years beginning on or after January 1, 2018. Based on the assessments undertaken to date, the only material change will be to the classification and measurement of investments at fair value. Although the investments at fair value will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. Therefore, on transition to IFRS 9, an adjustment will be made to move cumulative fair value gains or losses from the fair value reserve to retained earnings. No other adjustments to opening retained earnings are anticipated on adoption of IFRS 9 as it relates to classification and measurement of financial assets.

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

The Corporation has compared its existing methodology to determining credit losses and compared to the expected credit loss model that will be applied to assets classified at amortized cost. The Corporation is in the process of finalizing the quantum of this adjustment, however, does not expect it to be material.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, the Corporation does not expect any material changes to its revenue recognition and does not anticipate any transition adjustments.

SUMMARY OF ANNUAL AND QUARTERLY RESULTS

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

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

Annual Results Summary	2017	2016	2015
Revenue	$ 89,073	$ 100,042	$ 82,846
Earnings	11,882	66,553	57,529
Basic and Diluted Income per Share/Unit	Basic - $0.33	Basic - $1.83	Basic - $1.70
	Diluted - $0.32	Diluted - $1.81	Diluted - $1.68
Total Assets	793,418	787,221	788,210
Total Liabilities	188,873	132,523	111,164
Cash Dividends/Distributions declared per Share/Unit	Basic - $1.62	Basic - $1.62	Basic - $1.55
	Diluted - $1.61	Diluted - $1.60	Diluted - $1.53

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

In 2016, the Corporation recorded a total gain of $20.7 million on the LifeMark, Solowave and MAHC redemptions that increased revenue and earnings and a $7 million impairment charge was recorded for KMH. In 2015 the Corporation recorded a $2.8 million gain on the Killick redemption that increased revenue and earnings in that period and an impairment charge on KMH of $20 million that reduced earnings. In each period, an unrealized (non-cash) foreign exchange gain/loss has impacted earnings.

Quarterly Results Summary	Q4-17	Q3-17	Q2-17	Q1-17	Q4-16	Q3-16	Q2-16	Q1-16
Revenue	$ 21,638	$ 23,775	$ 22,779	$ 20,881	$ 27,259	$ 23,294	$ 24,913	$ 24,566
Earnings	$ 11,410	$ (22,031)	$ 10,656	$ 11,849	$ 21,724	$ 17,026	$ 7,043	$ 20,842
Basic and Diluted Income (loss) per Share/Unit	$ 0.31	$ (0.60)	$ 0.29	$ 0.33	$ 0.60	$ 0.47	$ 0.19	$ 0.57
	$ 0.31	$ (0.60)	$ 0.29	$ 0.32	$ 0.59	$ 0.46	$ 0.19	$ 0.57

In Q4 2017, the Corporation recorded a $13.6 million in bad debt expense as the remainder of the SHS promissory note was written off and a reserve related to the Kimco, Group SM and Phoenix promissory notes and other receivables as the probability surrounding their collectability is not assured. In Q3 2017, the Corporation recorded $9.8 million in bad debt expense as unpaid distributions from Group SM were written off, the Corporation also recorded $41.0 million in impairment charges as the fair value of the Group SM units were reduced to nil in the period and realized a $26.6 million gain on the redemption of Sequel.

In Q4 2016, the Corporation recorded a $0.9 million gain as well as an additional $5.3 million in distributions on the MAHC redemption. In Q3 2016, the Corporation recorded a $1.6 million gain on the Solowave redemption that increased revenue and earnings in that period. In Q2 2016, a $7 million impairment charge on the KMH units was recorded. In each quarter in 2015 and 2016, an unrealized foreign exchange gain/loss has impacted earnings. In Q1 2016, the Corporation recorded an $18.6 million gain on the LifeMark redemption that increased revenue and earnings in that period.

OUTSTANDING SHARES

At December 31, 2017, the Corporation had authorized, issued and outstanding, 36,481,247 voting common shares.

For the year ended December 31, 2017, the Company issued 35,711 common shares upon the exercise of stock options and 109,479 common shares from the exchange of vested RSU's.

At December 31, 2017, 291,651 RSUs and 2,242,364 stock options were outstanding under the Corporation's long-term incentive compensation plans. 2,109,671 stock options are out of the money at December 31, 2017. The weighted average exercise price of the outstanding options is $25.56. The Corporation issued 31,966 RSU's and 1,070,218 stock options with a weighted average exercise price of $21.56 during the year.

At March 5, 2018, the Corporation had 36,481,247 common shares outstanding.

INCOME TAXES

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2016 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.4 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date, including $3.0 million deposited in 2017. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings in respect of the 2017 taxation year, on the same basis. The carrying values of the remaining ITC's of $3.0 million at December 31, 2017 and the ITC's claimed in 2017 of $3.5 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

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

Tax Year	ITCs Applied	Losses Applied	Estimated Tax
July 2009		$ 10,532	$4,310
December 2009		1,916	748
December 2010		14,646	5,486
December 2011		14,992	5,113
December 2012		16,774	4,462
December 2013		22,642	6,519
December 2014		29,153	8,439
December 2015	2,315	10,560	4,417
December 2016	2,905	-	4,836
Total	**$5,220**	**$121,215**	**$44,384**

On December 2017, the United States government enacted the tax Cuts and Jobs Act ("US Tax Reform") with the majority of the legislation being effective January 1, 2018. The impact of this legislation on the Corporation's 2017 financial statements is a reduction in the deferred income tax liability of $6 million as a result of the reduction in the federal income tax rate from 35% to 21%.

In future years the Company will be positively impacted by the reduction in federal income tax rate which will be offset by limitations imposed on the deduction of interest expense. The Corporation does not anticipate that US Tax Reform will have a material impact on the cash taxes it is required to pay. The Corporation estimates the impact of US Tax Reform to the tax provision may be adjusted in the future based on anticipated future regulations and guidance from the U.S Treasury and the Internal Revenue Service.

OUTLOOK

Based on Alaris' current agreements with its partners, it expects revenues of approximately $94 million for 2018, revenue for Kimco (currently nil) and SCR ($100 thousand per month) are included at their current run rate, however the Corporation expects distributions from both partners to exceed the included amount. Total revenue from partners is expected to be $23.5 million in Q1 2018, an increase of 9% compared to $21.6 million in Q4 2017. Annual general and administrative expenses are currently estimated at $8.5 million and include all public company costs.

Including the successful redemption of Agility, the Corporation's Annualized Payout Ratio is now just over 90%. The table below sets out our estimated annualized current run rate of net cash from operating activities alongside the after-tax impact of the various improvements the Corporation is expecting in 2018.

Annualized Cash Flow *(in 000's)*	Comments	Amount ($)	$ / Share
Revenue	$1.30 USD/CAD exchange rate	$ 94,200	$ 2.58
General & Admins.		(8,500)	(0.23)
Interest & Taxes		(22,000)	(0.60)
Net cash flow		**$ 63,700**	1.75
Annual Dividend		59,000	1.62
Surplus		**$4,700**	**0.13**
Other Considerations (after taxes and interest):			
SCR & Kimco	Every addtl $2 million in distributions received is $0.05/share	+1,600	+0.05
New Investments	Every $20 million deployed @ 15%	+1,515	+0.04

The senior debt facility was drawn to $173.5 million at December 31, 2017, the Corporation used the proceeds from the Agility redemption to reduce the debt facility to $139.5 million subsequent to December 31, 2017, with the capacity to draw up to another $136.2 million based on new covenants and credit terms, in addition to the $70 million accordion facility for a total of $206.2 million. The annual interest rate on that debt was approximately 5.3% at December 31, 2017, increased by 0.25% effective January 2018.

Alaris' unique capital structure continues to fill a niche in the private capital markets. Therefore, Alaris continues to attract interest in its capital from private businesses across North America and is confident it will contribute capital to new, and existing Partners in 2018. 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, including statements regarding expected revenues (annually and quarterly), the Annualized Payout Ratio and anticipated expenses. The purpose of providing such information in this MD&A is to demonstrate the visibility the Corporation has with respect to its revenue streams, and such statements are subject to the risks and assumptions identified for the business in this MD&A, and readers are cautioned that the information may not be appropriate for other purposes. See also "Forward Looking Information" below.

RISKS FACTORS

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

We have organized our risks into the following categories:

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

Strategic Risk Factors Relating to Our Business

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

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

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

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

There is generally no publicly available information, including audited or other financial information, about our Private Company Partners and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to Canadian public companies. Therefore, we rely on our Management and third party service providers to investigate these businesses. There can be no assurance that our due diligence efforts or ongoing monitoring procedures will uncover all material information about the privately held businesses necessary to make fully informed decisions. In addition, our due diligence and monitoring procedures will not necessarily ensure that an investment will be successful. Private Company Partners may have significant variations in operating results; may from time to time be parties to litigation; may be engaged in rapidly changing businesses; may expand business operations to new jurisdictions or business lines; may require substantial additional capital to support their operations, to finance expansion or to maintain their competitive position; or may be adversely affected by changes in their business cycle or changes in the industries in which they operate.

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

We are subject to risks affecting any new Private Company Partners

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

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

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

We have limited diversification in our Private Company Partners

Although Alaris currently has 16 Private Company Partners and diversification has improved since inception, Alaris continues to have limited diversification in its Distributions from Private Company Partners. Alaris does not have stringent fixed guidelines for diversification with respect to our Private Company Partners. At any given point in time, we may have a significant portion of our assets dedicated to a single business or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, this could have a material adverse effect on our business, results from operations and financial condition.

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

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

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

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

We face competition with other investment entities

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

Operational and Financial Risk Factors Relating to Our Business

We are subject to tax related risks

CRA Re-Assessment

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2016 (collectively the “Reassessments”). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.4 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date, including $3.0 million deposited in 2017. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings in respect of the 2017 taxation year, on the same basis. The carrying values of the remaining ITC’s of $3.0 million at December 31, 2017 and the ITC’s claimed in 2017 of $3.5 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation’s payout ratio.

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

International Structure

Alaris has established Alaris Coop, Alaris USA, and Salaris USA for the purpose of financing and entering into arrangements with potential Private Company Partners in the United States and other jurisdictions on a tax efficient basis. Our corporate structure for this purpose was implemented having regard to the complex corporate and tax laws and regulations of Canada, The Netherlands and the United States, as well as the income tax conventions between those countries to date, and our understanding of the current administrative practices and policies of the taxation authorities of each such jurisdiction, as well the structure of our Private Company Partners. Such laws, regulations and conventions are subject to change from time to time. There is a possibility that such a change may be made, including with retroactive or retrospective effect. In addition, such structure is subject to assessment and possible adjustment by any of the taxation authorities of such jurisdictions based on differences of interpretation of the applicable tax laws and the manner in which such laws have been implemented. Furthermore, certain changes in the structure and business practices of our Private Company Partners could impact our structure. Although we are of the view that the corporate structure has been implemented correctly and is being managed and monitored properly, there can be no assurance that the tax authorities of such jurisdictions will agree. If such tax authorities successfully challenge any aspect of our financing and corporate structure, or if for business reasons we are not able to implement our structure fully, our operating results could be adversely affected.

In early January 2017, the CRA began an international tax audit of Alaris with respect to its 2013, 2014 and 2015 taxation years. In December 2017, the CRA issued a letter proposing adjustments relating to intercompany services provided by Alaris to its foreign subsidiaries. Alaris strongly disagrees with the CRA's assessment and intends to vigorously defend its tax filing position. The two parties continue to work through this matter, and currently, Alaris has not formally been reassessed by the CRA.

General

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

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

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

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

Certain features of our outstanding debt, including the renewal of such debt on substantially similar terms, and the nature of any outstanding debt of the Private Company Partners could adversely affect our ability to raise additional capital, to fund our operations, to pay dividends, and could limit our ability to react to changes in the economy and our industry, expose us to interest rate risks and could prevent us from meeting certain of our business objectives. An inability to meet our debt covenants could result in a default under our senior credit facility, which may then require repayment of any outstanding amounts at a time when Alaris may not have sufficient cash available to make such repayment. In addition, a default under our debt facility may impact our ability to obtain future debt financing on terms favorable to Alaris. Furthermore, an inability of any material Private Company Partner (or a group of non-material Partners collectively representing a material portion of our revenues) to meet their debt covenants and a failure of a Private Company Partner to refinance or restructure its debt where necessary can have an impact on their ability to pay our Distributions and therefore impact Alaris' cash flows. In addition, where a Private Company Partner has defaulted under our agreements, our right to exercise our remedies may be subordinate to the Partner's senior lender and subject to a standstill provision until the senior debt is repaid or for a specified period of time.

Alaris and our Partners are subject to significant regulation

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

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

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

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

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

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

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

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

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

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

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

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

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

Our Private Company Partners have termination rights which may be exercised

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

We and our Private Company Partners rely heavily on key personnel

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

Our share price is unpredictable and can be volatile

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

We may issue additional Common Shares diluting existing Shareholders' interests

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

We are subject to a risk of legal proceedings

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

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

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

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

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

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

Foreign Account Tax Compliance Act (“FACTA”) Provisions

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

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

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

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

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

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

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

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

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

If Alaris were to be or become a PFIC for the current or any future taxable year, Alaris does not intend to make available to U.S. shareholders the financial information necessary to make a QEF Election; however, provided the Common Shares were to constitute "marketable stock" (as specifically defined under the MTM Election regulations), a U.S. shareholder should be able to make an MTM Election with respect to his or her Common Shares. Alaris believes that the Common Shares would currently be considered "marketable stock" for this purpose. The making of an MTM Election would result in the electing U.S. shareholder of Common Shares having to recognize as ordinary income or loss each year an amount equal to the difference as of the close of such year (or the actual disposition of the Common Shares) between the fair market value of the Common Shares and the shareholder's adjusted U.S. federal income tax basis in such shares. Losses would be allowed only to the extent of the net mark-to-market gain previously included in income by the U.S. shareholder under the MTM Election for prior taxable years. If an MTM Election is made, then distributions from Alaris with respect to the Common Shares would be treated as if Alaris were not a PFIC, except that the lower tax rate currently imposed on dividends to individuals would not apply.

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

Our capacity to protect our intellectual property may be limited

We rely on various intellectual property protections, including trademark laws, to preserve our intellectual property rights, for our investment in End of the Roll. To protect our intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of Management, cause significant delays, materially disrupt the conduct of our business or adversely affect our revenues, financial position and results of operations.

RISKS RELATING TO OUR PRIVATE COMPANY PARTNERS

Risks Relating to Our Material Private Company Partners

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

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

Risks Relating Specifically to DNT

Exposure to residential development	In the current economic cycle, DNT chooses to have a higher percentage of its revenue generated from new residential development projects than commercial or infrastructure projects. Although it DNT's strategy to focus more of its efforts on the segment of the market with the most current and projected growth, it exposes DNT to a downturn in the new home development segment of the economy, which can have a material impact on its cash flows. In times of economic downturns DNT can shift its focus to commercial and infrastructure projects. However, failing to do so in a timely manner to offset lost revenue from the residential segment, or at all, can have a significant impact on DNT's cash flow.
Geographic exposure to Austin and San Antonio	DNT focuses primarily on the Austin and San Antonio regions of the state of Texas. Although these two regions have robust economies, which are diversified among healthcare, technology and education, they are close enough in proximity to be impacted by the same economic and weather related factors. This lack of geographic diversification exposes DNT to more concentrated events than it would otherwise be if it were to be diversified across many regions of the United States.
Bonding requirements	DNT Requires bonding on a significant number of its projects. This requires DNT to maintain a healthy balance sheet or face the risk of not being able to bid on certain new projects. Any lack of ability to bond new projects could have a significant impact on DNT's cash flows.
Seasonality including weather related events	Unusual amounts of rain can impact the business significantly as it prevents DNT from providing its services and in many instances can increase costs for things such as water remediation. The unusual wet weather can also cause "work overs" which can erode margins on certain projects. The unusual wet weather may also cause margins to erode when the work is eventually restarted as it may require overtime hours to complete the work on schedule.
Fixed price contracts	As costs are established on estimates for fixed price contracts, DNT bears the risk for cost overruns. Generally it manages the risk with vigorous pre-bid analysis and through hedging of its materials and fuel costs. However, errors in estimating and unforeseen weather events can cause both labour and materials costs overruns.
Customer concentration	DNT generates a large portion of its revenues from a handful of customers. If DNT fails to win new tenders with these customers or if the customers face financial trouble, which results in the delay or cancelation of new projects, DNT's revenue and cash flows can be negatively impacted until the revenue can be replaced through other sources.

Risks Relating Specifically to Federal Resources

Complex procurement rules and regulations on U.S. government contracts	Federal Resources derives a majority of its revenue from contracts with the U.S. government, as well as other State level and municipal contracts. U.S. government contracts have complex procurement rules and certain regulations. A failure to abide by these rules/regulations can result in penalties such as termination of certain contracts, disqualification from bidding on future contracts and suspension or permanent removal from bidding on U.S. government contracts.
Subject to reviews, audits and costs adjustments by the U.S. government	If a review, audit or cost adjustment conducted by the U.S. government results in an outcome negative to Federal Resources, it could adversely affect their profitability, cash flow or growth prospects.
Contracts can be cancelled at anytime	The U.S. government can cancel contracts at any time through a termination of convenience provision, provided that they cover Federal Resources for costs incurred. Although cost coverage would result in Federal Resources not incurring a loss on the inventory it purchased, it will not make a profit on the sale and will need to find a substantial

	new customer or customers and sell the product over a prolonged period of time in order to eventually realize a profit on the inventory.
Competition is intense	Federal Resources competes with a number of large established multinational companies. This results in competitive pricing and low profit margins. Successfully winning contracts in a competitive environment can result in losses on certain contracts if certain variables change given the low profit margins Federal Resources operates with.
Seasonality/variability of revenue	Due to the timing of government's budget cycles, the majority of Federal Resources sales can come within a certain time of the year. This requires Federal Resources to manage its cash flows for operations, debt payments and distribution payments to Alaris for the remaining months of a given year out of the cash generated from prior sales. Failure to properly manage cash flow from seasonal sales could negatively impact Federal Resources cash flow.
Working capital requirements at certain times of the year can be significant	Due to the amount of inventory Federal Resources has to carry to satisfy certain contracts at certain times of the year, it can result in significant requirements for working capital to fund operations. If Federal Resources fails to have sufficient working capital to support periodic needs it could negatively impact the cash flows of the business and thus payment of Distributions to Alaris.
A decline in U.S. government defense budgets can impact FRS	Given that Federal Resources generates a majority of its revenue from U.S. government defense contracts it could be negatively impacted by a general decrease in defense budget spending in a given year.

Risks relating to all of our Private Company Partners, generally

RISKS RELATING TO ALL OF OUR PRIVATE COMPANY PARTNERS, GENERALLY

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

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

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

Our Private Company Partners rely on key personnel

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

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

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

Failure to Realize Anticipated Benefits of Acquisitions

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

Our Private Company Partners may suffer damage to their brand reputations

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

Our Private Company Partners face intense competition

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

Additional franchises and franchise operations may be limited

One of our Private Company Partners, End of the Roll, is a franchisor. The growth of revenues of this company is largely dependent upon its ability to maintain and grow its franchise systems and to execute its current growth strategy for both increasing the number of franchisees and increasing the number of locations. If this company is unable to attract qualified franchisees, its operations could be adversely affected. The slowing of growth could lead potential and existing franchisees to begin to look elsewhere for better opportunities. The growth of the franchise network through adding new franchisees is somewhat dependent upon available personnel.

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

Changes in the industry in which the Private Company Partners operate

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

Risks regarding legal proceedings involving our Private Company Partners

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

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

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

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 2018, including, without limitation, the earnings coverage ratio for the Partners and the Corporation's Annualized Payout Ratio; the revenues to be received by Alaris in 2018 (on an annual and quarterly basis); the Corporation's general and administrative expenses and cash requirements in 2018; the CRA proceedings (including the expected timing and financial impact thereof); the Corporation's payout ratio (actual and annualized); changes in Distributions from Partners; the proposed resolutions to outstanding issues with certain Partners; the restart of Distributions from any partners not currently paying a Distribution; the timing for collection of deferred or unpaid Distributions; 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 2018; 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 by the Corporation or the Partners required regulatory approvals on a timely basis or at all; changes in legislation and regulations and the interpretations thereof; litigation risk associated with the CRA's reassessment and the Corporation's challenge thereof; and material adjustments to the unaudited internal financial reports provided to Alaris by the Partners. The information contained in this MD&A, and the Corporations annual management discussion and analysis for the year ended December 31, 2017 including the information set forth under "Risks and Uncertainty", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

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

ADDITIONAL INFORMATION

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

Consolidated Financial Statements of

ALARIS ROYALTY CORP.

Audited financial statements for the years ended
December 31, 2017 and 2016

CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statement of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of comprehensive income / (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Alaris Royalty Corp. as at December 31, 2017 and December 31, 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants
March 5, 2018
Calgary, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

$ thousands	Note	31-Dec 2017	31-Dec 2016
Assets			
Cash and cash equivalents		$ 35,475	$ 29,491
Prepayments		2,407	2,097
Foreign exchange contracts	10	1,430	-
Trade and other receivables	5	8,642	16,762
Investment tax credit receivable	9	2,957	3,654
Promissory notes receivable	5	15,403	21,922
Current Assets		$ 66,315	$ 73,926
Promissory notes and other receivables	5	32,017	7,891
Deposits	9	19,252	16,256
Equipment		503	647
Intangible assets	5	6,116	6,206
Investments at fair value	5	669,216	681,093
Investment tax credit receivable	9	-	1,201
Non-current assets		727,103	713,295
Total Assets		**$ 793,418**	**$ 787,221**
Liabilities			
Accounts payable and accrued liabilities		$ 1,707	$ 3,057
Dividends payable		4,921	4,905
Foreign exchange contracts	10	-	712
Income tax payable	9	588	2,007
Current Liabilities		7,217	10,682
Deferred income taxes	9	8,192	22,458
Loans and borrowings	7	173,464	99,383
Non-current liabilities		181,656	121,841
Total Liabilities		**$ 188,873**	**$ 132,523**
Equity			
Share capital	6	$ 620,842	$ 617,893
Equity reserve		12,058	11,628
Fair value reserve		-17,036	(27,931)
Translation reserve		5,767	23,029
Retained earnings / (deficit)		-17,087	30,079
Total Equity		**$ 604,545**	**$ 654,698**
Total Liabilities and Equity		**$ 793,418**	**$ 787,221**
Subsequent events	13		

On behalf of the Board:

Director (signed) *"Jack C. Lee"*
Director (signed) *"Mary Ritchie"*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME / (LOSS)

		Year ended December 31	
$ thousands except per share amounts	Note	**2017**	**2016**
Revenues			
Royalties and distributions	5	$ 86,684	$ 98,486
Interest and other	5	2,389	1,556
Total Revenue		89,073	100,042
Other income			
Gain on partner redemptions	5	26,575	20,271
Realized gain on foreign exchange contracts		1,370	3,473
Total other income		27,945	23,744
Salaries and benefits		3,371	3,361
Corporate and office		2,597	3,297
Legal and accounting fees		2,096	2,513
Non-cash stock-based compensation	8	3,379	4,369
Bad debt expense & reserve	5	23,430	2,442
Impairment and other charges	5	42,491	7,000
Depreciation and amortization		268	279
Total Operating Expenses		77,632	23,260
Earnings before the undernoted		**39,386**	**100,526**
Finance costs	7	6,582	5,882
Unrealized (gain) on foreign exchange contracts		(2,144)	(4,633)
Unrealized foreign exchange loss		12,793	13,136
Earnings before taxes		**22,155**	**86,142**
Current income tax expense		22,089	7,104
Deferred income tax expense / (recovery)		(11,815)	12,484
Total income tax expense		10,274	19,589
Earnings		**$ 11,882**	**$ 66,553**
Other comprehensive income			
Transfer on redemption of investments at fair value		$ (9,062)	$ (27,399)
Transfer from fair value reserve to impairment and other charges		4,250	-
Net change in fair value of investments at fair value		16,692	(8,020)
Tax effect of items in other comprehensive income		(984)	5,613
Foreign currency translation differences		(17,262)	(4,622)
Other comprehensive (loss) for the year net of income tax		(6,366)	(34,428)
Total comprehensive income for the year		**$ 5,516**	**$ 32,125**
Earnings per share			
Basic	6	$0.33	$1.83
Fully diluted	6	$0.32	$1.81

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2016

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2016		$ 617,627	$ 7,526	$ 1,875	$ 27,651	$ 22,368	$ 677,046
Earnings for the year		$ -	$ -	$ -	$ -	$ 66,553	$ 66,553
Other comprehensive income / (loss)							
Transfer on redemption of investments at fair value		-	-	(27,399)	-	-	(27,399)
Transfer from fair value reserve to impairment and other charges		-	-	-	-	-	-
Net change in investments at fair value		-	-	(8,020)	-	-	(8,020)
Tax effect on items in other comprehensive income		-	-	5,613	-	-	5,613
Foreign currency translation differences		-	-	-	(4,622)	-	(4,622)
Total other comprehensive income / (loss)		-	-	(29,806)	(4,622)	-	(34,428)
Total comprehensive income / (loss) for the year		$ -	$ -	$ (29,806)	$ (4,622)	$ 66,553	$ 32,125
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 4,369	$ -	$ -	$ -	$ 4,369
Dividends to shareholders	6	-	-	-	-	(58,842)	(58,842)
Options exercised in the period		266	(266)	-	-	-	-
Total transactions with Shareholders of the Company		266	4,103	-	-	(58,842)	(54,474)
Balance at December 31, 2016		**$ 617,893**	**$ 11,628**	**$ (27,931)**	**$ 23,029**	**$ 30,079**	**$ 654,698**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2017

$ thousands	Notes	Share Capital	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2017		$ 617,893	$ 11,628	$ (27,931)	$ 23,029	$ 30,079	$ 654,698
Earnings for the year		$ -	$ -	$ -	$ -	$ 11,882	$ 11,882
Other comprehensive loss							
Transfer on redemption of investments at fair value		-	-	(9,062)	-	-	(9,062)
Transfer from fair value reserve to impairment and other charges				4,250			4,250
Net change in investments at fair value		-	-	16,692	-	-	16,692
Tax effect on items in other comprehensive income		-	-	(984)	-	-	(984)
Foreign currency translation differences		-	-	-	(17,262)	-	(17,262)
Total other comprehensive income / (loss)		-	-	10,896	(17,262)	-	(6,366)
Total comprehensive income / (loss) for the year		$ -	$ -	$ 10,896	$ (17,262)	$ 11,882	$ 5,516
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	8	$ -	$ 3,379	$ -	$ -	$ -	$ 3,379
Dividends to shareholders	6	-	-	-	-	(59,048)	(59,048)
Options / RSU's exercised in the period		2,950	(2,950)	-	-	-	-
Total transactions with Shareholders of the Company		2,950	429	-	-	(59,048)	(55,669)
Balance at December 31, 2017		**$ 620,842**	**$ 12,058**	**$ (17,035)**	**$ 5,767**	**$ (17,087)**	**$ 604,545**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31

$ thousands	Notes	**2017**	**2016**
Cash flows from operating activities			
Earnings from the year		$ 11,882	$ 66,553
Adjustments for:			
Finance costs	7	6,582	5,882
Deferred income tax expense / (recovery)	9	(11,815)	12,484
Depreciation and amortization		268	279
Bad debt expense & reserve	5	23,430	2,442
Impairment and other charges	5	42,491	7,000
Gain on partner redemptions, net of cash taxes	5	(10,535)	(20,271)
Unrealized (gain) on foreign exchange contracts		(2,144)	(4,633)
Unrealized foreign exchange loss		12,793	13,136
Non-cash stock-based compensation	8	3,379	4,369
		$ 76,331	$ 87,241
Change in:			
- trade and other receivables	5	(1,693)	(13,018)
- income tax receivable / payable	9	319	3,694
- prepayments		227	337
- accounts payable and accrued liabilities		(1,350)	919
Cash generated from operating activities		73,834	79,174
Finance costs	7	(6,582)	(5,882)
Net cash from operating activities		$ 67,252	$ 73,292
Cash flows from investing activities			
Acquisition of equipment		$ (32)	$ (43)
Acquisition of preferred units	5	(175,293)	(110,882)
Proceeds from partner redemptions, net of cash taxes	5	116,277	103,212
Promissory notes issued	5	(16,467)	(6,750)
Promissory notes repaid	5	617	313
Net cash used in investing activities		$ (74,899)	$ (14,151)
Cash flows from financing activities			
Repayment of debt	7	$ (116,277)	$ (78,863)
Proceeds from debt	7	196,528	99,657
Dividends paid	6	(59,032)	(58,838)
Deposits with CRA	9	(2,422)	(4,233)
Net cash from / (used in) financing activities		$ 18,797	$ (42,278)
Net increase in cash and cash equivalents		$ 11,151	$ 16,863
Impact of foreign exchange on cash balances		(5,166)	(8,363)
Cash and cash equivalents, Beginning of year		29,491	20,991
Cash and cash equivalents, End of year		$ 35,475	$ 29,491
Cash Taxes paid		$ 26,712	$ 7,900

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

Alaris Royalty Corp. is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements as at and for the year ended December 31, 2017 comprise Alaris Royalty Corp. and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership (Alaris Income Growth Fund Partnership) and Salaris Small Cap. Royalty Corp. ("Salaris"). The Corporation's American operations are conducted through two Delaware Corporations, Alaris USA Inc.("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Corporation's operations consist primarily of investments in private operating entities, typically in the form of preferred limited partnership interests, preferred interest in limited liability corporations in the United States, loans receivable, or long-term license and royalty arrangements. The Corporation also has wholly-owned subsidiaries in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") and Salaris Cooperatief U.A. ("Salaris Cooperatief").

2. STATEMENT OF COMPLIANCE

(a) Statement of compliance

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

These consolidated financial statements were approved by the Board of Directors on March 5, 2018.

(b) Basis of measurement

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

- Available-for-sale financial assets (Investments at fair value) are measured at fair value with changes in fair value recorded in other comprehensive income or earnings if the asset is impaired.
- Derivative financial instruments are measured at fair value

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Key judgments

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

2. Statement of compliance (continued):

Key estimates used in discounted cash flow projections

Key assumptions used in the calculation of the fair value of available for sale financial assets are discount rates, terminal value growth rates and annual performance metric growth rates. Where partners are in default, other valuation methods may be used. See note 5 for details in respect of the calculation.

Collectability of amounts receivable

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

Income taxes

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of consolidation

(i) Subsidiaries

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

(ii) Transactions eliminated on consolidation

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

(b) Revenue recognition

The Corporation recognizes revenue from the distributions and royalties it receives from the private company partners as they become due under the partnership agreement, limited liability corporation agreement, or royalty agreement with each specific partner and reasonable assurance of collection exists.

(c) Financial instruments

(i) Non-derivative financial assets

The Corporation derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables are comprised of cash and cash equivalents, and trade and other receivables, and promissory notes and other receivables.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash balances and banker's acceptances with original maturities of three months or less.

3. Significant accounting policies (continued):

Available-for-sale financial assets

Investments at fair value are non-derivative financial assets that are designated as available for sale or are not classified in any of the previous categories. The Corporation's investments in preferred partnership units, limited liability corporations and the loan receivable from Federal Resources are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented in fair value reserve. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

The Corporation's interest in the partner companies is through ownership of preferred units. The units do not constitute control or significant influence over the businesses as the units are predominantly non-voting (in some cases there are minority voting shares for structuring purposes only). The units do not include any residual benefits and the Corporation has no right to participate in management decisions except in certain instances outside the normal course of business (adding new debt, change of control, extraordinary capital expenses and material acquisitions and divestitures) and the Corporation is not involved in the financial or operating policies of the partner company.

After an exclusive letter of intent has been signed, 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.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss. The Corporation does not apply hedge accounting to these hedging contracts.

(d) Share capital

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

(e) Equipment

(i) Recognition and measurement

Equipment is measured at cost less accumulated depreciation.

(ii) Depreciation

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

(f) Intangible assets

(i) Intangible assets

Intangible assets are comprised solely of the Corporation's investment in certain intellectual property of End of the Roll, which has a finite useful life and is measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization

Amortization is based on the cost of an asset less its residual value. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date that they are available for use. Intangible assets held by the Corporation include intellectual property and are amortized over the 80 year life of the license and royalty agreement. Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event has a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

3. Significant accounting policies (continued):

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Corporation on terms that the Corporation would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

(ii) Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognized by reclassifying losses accumulated in fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent period, the fair value of an impaired available-for-sale security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

(h) Share based payment transactions

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

(i) Finance costs

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

(j) Income tax

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

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

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

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

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

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

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

3. Significant accounting policies (continued):

(k) Earnings per Share

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

(l) Foreign currency transactions

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

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

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

(m) Foreign operations

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

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

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

(n) New standards and interpretations not adopted

IFRS 9: Financial Instruments

On July 24, 2014, the IASB issued the final version of IFRS 9, "Financial Instruments" ("IFRS 9") to replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39").

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

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

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

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

IFRS 9 is effective for years beginning on or after January 1, 2018. Based on the assessments undertaken to date, the following classification and measurement differences between IAS 39 and IFRS 9 are expected:

3. Significant accounting policies (continued):

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

Although the investments at fair value will continue to be measured at fair value, fair value gains or losses will be recorded through profit or loss as opposed to through other comprehensive income. Therefore, on transition to IFRS 9, an adjustment will be made to move cumulative fair value gains or losses from the fair value reserve to retained earnings. The Corporation is still assessing the classification and measurement of its loan to Federal Resources, which will either be at amortized cost or at FVTPL. Should it be classified at amortized cost, a transition adjustment for this change in classification and measurement will be required. No other adjustments to opening retained earnings are anticipated on adoption of IFRS 9 as it relates to classification and measurement of financial assets.

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

The Corporation has compared its existing methodology to determining credit losses and compared to the expected credit loss model that will be applied to assets classified at amortized cost. The Corporation is in the process of finalizing the quantum of this adjustment, however, does not expect it to be material.

IFRS 15: Revenue from Contracts with Customers

Revenue from Contracts with Customers provides guidance on revenue recognition and relevant disclosures, and is effective for annual reporting periods beginning on or after January 1, 2018. Due to the fact that the majority of its revenues are generated from financial instruments and therefore not in the scope of IFRS 15, the Corporation does not expect any material changes to its revenue recognition and does not anticipate any transition adjustments.

4. FINANCIAL RISK MANAGEMENT

Overview

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

- credit risk and other price risk
- liquidity risk
- market risk
- foreign exchange risk

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

4. Financial risk management (continued):

Risk Management Framework

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

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

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

Credit Risk and Other Price Risk

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

However, management also considers the demographics of counterparties, including the default risk of the industry and country in which counterparties operate, as these factors may have an influence on credit risk. No single partner accounted for more than 20% of the Corporation's revenue in the year ended December 31, 2017. See note 5 for additional information on distributions receivable that are past due.

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

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

Cash and cash equivalents consist of cash bank balances and short-term deposits maturing in less than 90 days. The Corporation manages the credit exposure related to short-term investments by selecting counter parties based on credit ratings and monitors all investments to ensure a stable return, avoiding complex investment vehicles with higher risk such as asset backed commercial paper. The Corporation held cash and cash equivalents of $35.5 million at December 31, 2017 (December 31, 2016 - $29.5 million), which represents its maximum credit exposure on these assets. The unusually high amount of cash was in place in order to fund a transaction of US$15 million (approximately $18.8 million) in January 2018 (see Note 13).

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

Liquidity Risk

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

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

Typically the Corporation ensures that it has sufficient cash on hand to meet expected operational expenses for a period of 30 days, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted. In addition, the Corporation maintains a $200 million, four year revolving credit facility, and has $173.5 million balance drawn at December 31, 2017 ($99.5 million at December 31, 2016). Subsequent to December 31, 2017, the facility was increased to $280 million. The Corporation has the following financial instruments that mature as follows:

4. Financial risk management (continued):

31-Dec-17	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	($1,707)	($1,707)	$ -	$ -	$ -
Dividends payable	(4,921)	(4,921)	-	-	-
Income tax (payable) / receivable	(588)	(588)	-	-	-
Loans and borrowings	(173,464)	-	-	-	(173,464)
Total	**($180,681)**	**($7,217)**	**$ -**	**$ -**	**($173,464)**

Market Risk

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

Foreign currency exchange rate risk and commodity price risk

As a result of the investments in the United States, the Corporation has exposure to foreign currency exchange rate risk. The Corporation purchases forward exchange rate contracts to match expected distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis (current notional value of US$33.6 million). The Corporation intends to purchase additional contracts each quarter so that approximately two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. As at December 31, 2017, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $0.4 million lower, due to a smaller unrealized foreign exchange gain during the period. An equal and opposite impact would have occurred to net income had foreign exchange rates been $0.01 higher.

Additionally, the Corporation has US dollar subsidiaries and loans in US dollars (external senior debt, intercompany and with Federal Resources) that are translated at each balance sheet date with an unrealized foreign exchange gain or loss recorded in earnings. As at December 31, 2017, if the US foreign exchange rate had been $0.01 lower with all other variables held constant, net income for the year would have been approximately $1.4 million lower due to lower net income from US subsidiaries, a larger unrealized loss on loans to subsidiaries and Federal Resources, partially offset by a higher unrealized gain on USD denominated external debt.

Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Corporation is exposed to interest rate fluctuations on its bank debt that bears a floating rate of interest. As at December 31, 2017, if interest rates had been 1% higher with all other variables held constant, net income for the year would have been approximately $1.1 million lower, due to higher interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% lower. The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2017.

Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of share capital, a four year, $200 million revolving credit facility, a $50 million accordion facility and retained earnings. The Board of Directors monitors the return on capital as well as the level of dividends to common shareholders.

The Corporation manages capital by monitoring certain debt covenants set out in its credit facility. The Corporation has a maximum senior debt to contracted EBITDA of 2.5:1 which can extend to 3.0:1 for a period of 90 days (actual ratio is 1.97:1 at December 31, 2017). Contracted EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses but the Corporation can include twelve months of revenue from partners that are less than twelve months from closing and must exclude revenue from partners for the portion that was redeemed or repurchased and for distributions that have been accrued and are past due. The Corporation has a fixed charge coverage ratio covenant of 1:1 (actual ratio is 1.07:1 at December 31, 2017). Additionally, a minimum tangible net worth requirement of $450 million is in place (actual amount is $598.4 million at December 31, 2017). Tangible net worth is defined as subordinated debt plus shareholders equity less intangible assets. The Corporation was in compliance with all debt covenants at December 31, 2017. In order to acquire more distributions and

4. Financial risk management (continued):

royalties, the Corporation can access its credit facility for investing activity. Any funding requirements for acquisitions in excess of availability under the credit facility will require, the Corporation to access public equity markets and manage the business within the bank covenants. There were no significant changes in the Corporation's approach to capital management, with a slight change in the tolerance to carry a permanent amount of long term debt in the capital structure if it reduces the Corporation's cost of capital. Subsequent to December 31, 2017, the Corporation received an increase in its revolving credit facility to $280 million ($200 million as of December 31, 2017), please see note 13 for details of the subsequent amendments to the Corporation's credit facility.

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5. INVESTMENTS AT FAIR VALUE

Differences in the acquisition cost of Agility, Sequel, Kimco, Planet Fitness, DNT, FED, Sandbox, Providence and Unify (formerly Matisia) at December 31, 2017 and December 31, 2016 are partially attributable to foreign currency translation.

31-Dec-17 *$ thousands*	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
Lower Mainland Steel Limited Partnership ("LMS")	$ 60,034	$ 656	$ 60,690	$ 35,917
Labstat International, LP ("Labstat")	47,200	519	47,719	61,324
Agility Health, LLC ("Agility")	25,232	781	26,013	26,133
SCR Mining and Tunneling, LP ("SCR")	40,000	487	40,487	26,203
SM Group International, LP ("Group SM")	40,500	717	41,217	-
Kimco Holdings, LLC ("Kimco")	42,928	1,252	44,180	29,045
PF Growth Partners, LLC ("Planet Fitness")	50,212	787	50,999	57,427
DNT, LLC ("DNT")	85,177	707	85,883	89,933
Federal Resources Supply Company ("FED"):	33,327	1,731	35,058	40,576
Sandbox Acquisitions, LLC ("Sandbox")	43,878	941	44,819	46,517
Providence Industries, LLC ("Providence")	37,659	488	38,147	40,661
Unify, LLC ("Unify") formerly Matisia, LLC	22,376	617	22,993	24,499
ccCommunications LLC ("ccComm")	7,786	456	8,242	7,941
Accscient, LLC ("Accscient")	25,887	548	26,435	25,514
Sales Benchmark Index LLC ("SBI")	106,829	442	107,271	107,158
Capitalized costs	-	155	155	155
Total LP and LLC Units	669,023	11,286	680,309	619,004
FED Loan Receivable	50,212	-	50,212	50,212
Total Investments at Fair Value	**$ 719,235**	**$ 11,286**	**$ 730,521**	**$ 669,216**

31-Dec-16	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LMS	$ 60,034	$ 656	$ 60,690	$ 36,215
KMH Limited Partnership ("KMH")	54,800	589	55,389	26,947
Labstat	47,200	519	47,719	49,199
Agility Health	27,075	838	27,913	26,965
SCR	40,000	487	40,487	30,488
Sequel Youth and Family Services, LLC ("Sequel")	99,005	769	99,774	109,498
Group SM	40,500	717	41,217	40,217
Kimco	46,064	1,344	47,407	31,166
Planet Fitness	53,880	845	54,725	59,062
DNT	94,290	758	95,048	99,197
FED	17,577	1,858	19,435	21,800
Sandbox	29,634	923	30,557	30,538
Providence	40,410	524	40,934	40,950
Unify (formerly Matisia)	24,010	662	24,672	24,672
Capitalized costs	-	298	298	298
Total LP and LLC Units	674,478	11,788	686,266	627,213
FED Loan Receivable	53,880	-	53,880	53,880
Total Investments at Fair Value	**$ 728,358**	**$ 11,788**	**$ 740,146**	**$ 681,093**

5. Investments (continued):

Transactions closed in 2017

Investment in ccCommunications LLC ("ccComm")

The Corporation contributed US$4 million (approximately CAD$5.4 million) to ccComm on January 10, 2017 in exchange for an annualized distribution of US$0.6 million (approximately CAD$0.8 million). ccComm is a Sprint retailer with over 50 locations throughout the Northwest U.S. The reset metric is net revenue with a collar of plus or minus 6%.

The Corporation contributed an additional US$2.2 million (approximately CAD$2.7 million) to ccComm on August 31, 2017 (ccComm Tranche #2) in exchange for an annualized distribution of US$0.3 million (approximately CAD$0.4 million). ccComm used the proceeds to acquire an additional 21 Sprint retail locations in the Northwest U.S.

Redemption of KMH Limited Partnership ("KMH") Units

On June 19, 2017, total consideration of $30.5 million ($9.8 million of cash and $20.7 million of secured promissory notes) was exchanged for the redemption of all outstanding preferred units (the "Alaris Preferred Units") and the outstanding $3.5 million promissory note as a result of the sale of the majority of KMH's Canadian clinics to a third party (the "Third Party Sale"). The $20.7 million of promissory notes (the "Phoenix Notes") are issued by Phoenix Holdings Limited ("Phoenix"), a company controlled by the former principals of KMH, and are secured by way of first security on Phoenix's U.S. business that was carved out of the Third Party Sale, a right to the residual value in certain real estate assets owned by Phoenix and its principals, and a preferred liquidation position on the equity in the Canadian business retained by Phoenix as a result of the Third Party Sale.

As a result of the redemption of all outstanding KMH units, the Corporation has no remaining investments at fair value as of December 31, 2017 relating to KMH. The Corporation expects to receive the $20.7 million Phoenix Notes in three different tranches. The Corporation expects to receive value for the first tranche totaling $12.4 million within the next twelve months with the remaining $8.3 million collected over a longer term period as Phoenix continues with the strategic process and recapitalization of their U.S. business. Subsequent to December 31, 2017, the Corporation has the ability to compel the U.S. business to be sold. Phoenix has acknowledged this right and a strategic process to realize on the debt is under way.

As the redemption of the KMH units and the $3.5 million promissory notes resulted in an extinguishment of financial assets, the Corporation recorded an initial loss of $1.5 million, representing the difference between the carrying value of the assets given up and the fair value of the consideration received. The fair value of the consideration received was calculated as the cash proceeds plus the face value of the short term secured note plus the discounted value of the long-term secured note. The long term secured note of $8.3 million was discounted using a five year term and a 5% discount rate to arrive at the fair value. The fair value difference will be accreted to its face value over its estimated five year term, ($0.2 million was accreted during the twelve months ended December 31, 2017). See Promissory and Other Receivable table later in this note 5 for additional information on the valuation of these notes as at December 31, 2017.

Return of US$2 million of Redeemable Units from DNT, LLC ("DNT")

On May 26, 2017, as per the terms of the partnership agreement, DNT returned US$2 million (CAD$2.7 million) as calculated based on their excess cash flow sweep. The return of US$2.0 million of redeemable shares result in the reduction of DNT net cost to US$68 million (US$40 million permanent units in addition to US$28 million of redeemable units). During the year ended December 31, 2017, the fair value of the DNT units was increased to US$71.6 million.

Investment in Accscient, LLC ("Accscient")

The Corporation contributed US$20.0 million (CAD$26.4 million) into Accscient LLC on June 20, 2017 in exchange for an annualized distribution of US$3.0 million (CAD$3.9 million). The Accscient Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross profit with a collar of plus or minus 5%. The Accscient Contribution is made up of US$14.0 million of permanent units as well as US$6.0 million of redeemable units (the "Redeemable Units"). The Redeemable Units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the Accscient Contribution at Accscient's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units.

Investment in Sales Benchmark Index LLC ("SBI")

On August 31, 2017, the Corporation contributed US$85.0 million (CAD$106 million) into SBI in exchange for an annualized distribution of US$11.1 million (CAD$13.8 million) on August 31, 2017. The SBI Distribution will be reset for the first time on January 1, 2019 based on the percentage change in gross revenue with a collar of plus or minus 8%. The SBI Contribution is made up of US$75.0 million of permanent units (the "SBI Permanent Units") as well as US$10.0 million of redeemable units (the "SBI

5. Investments (continued):

Redeemable Units"). The Redeemable Units can be redeemed at par by the issuer at any time up to the third anniversary following the closing of the SBI Contribution at SBI's discretion. After the third anniversary the Redeemable Units will have the same repurchase metrics as the Permanent Units. SBI is a management consulting firm specializing in sales and marketing that is dedicated to helping companies reach their sales objectives.

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

On September 1, 2017, Sequel redeemed all units for total proceeds of US$95.9 million (approximately CAD$121 million) (the "Sequel Redemption"). The Corporation received US$91.8 million (approximately CAD$114.8 million) at close, the remainder of the proceeds were received prior to December 31, 2017. The Corporation recognized a US$21.6 million (approximately CAD$26.6 million) gain through earnings as proceeds on redemption (US$95.9 million) exceeded total capital invested (US$74.1 million). The Corporation paid US$12.8 million (CAD$16.0 million) of taxes from the gain on redemption of the Sequel units during the year ended December 31, 2017. These taxes were a direct result of the proceeds on redemption of the Sequel units exceeding the cost basis of the units.

S.M. Group International LP ("Group SM")

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

As of December 31, 2017 the Corporation has $27 million of promissory notes ($10 million first priority secured and $17 million of unsecured) outstanding. The smaller judgment also means that the majority of the short-term unsecured notes of $17 million will only be collected after the successful recapitalization or sale of the business, thus moved from current assets to non-current assets. Group SM is currently undergoing a full restructuring process, subsequent to the restructuring the Corporation believes there will be sufficient enterprise value to repay in full the $27 million of secured and unsecured promissory notes. See Promissory and Other Receivable table later in this note 5 for additional information on the valuation of these notes as at December 31, 2017.

Sandbox Acquisitions, LLC ("Sandbox") Additional Contribution

On September 20, 2017, the Corporation contributed an additional US$6.0 million (CAD$7.5 million) (Sandbox Tranche #2) into Sandbox LLC in exchange for an annualized distribution of US$0.9 million (CAD$1.1 million). The Sandbox Additional Contribution was used to fund an acquisition.

On December 15, 2017, the Corporation contributed an additional US$7.0 million (CA$9.0 million) (Sandbox Tranche #3) into Sandbox LLC in exchange for an annualized distribution of US$1.0 million (CAD$1.3 million). The Sandbox Additional Contribution was used to fund a performance earn out in connection with a prior acquisition.

Federal Resources Supply Company ("FED") Additional Contribution

On December 13, 2017, the Corporation contributed an additional US$13.5 million (CAD$17.4 million) (FED Tranche #3) into FED in exchange for an annualized distribution of US$1.8 million (CAD$2.3 million). The contribution was used to partially fund an acquisition.

<u>Transactions closed in 2016</u>

Redemption in LifeMark Health Limited Partnership ("LifeMark Health") Units

On March 4, 2016, the Corporation redeemed all of its preferred units in LifeMark in exchange for $30 million in cash and an $8.4 million promissory note with interest at 11.15% from Centric Health Corporation ("Centric"). The promissory note, along with all interest accrued and owing, was repaid in full by Centric on March 23, 2016. The Corporation realized a gain on redemption of $18.6 million that had accumulated through comprehensive income over the life of the investment.

Investment in Sandbox Acquisitions, LLC ("Sandbox")

On March 8, 2016, the Corporation holds 556 Class B units, 1,444 Class C units and 1 Class D unit in Sandbox Acquisitions, LLC along with 200,000 Preferred units in Sandbox Advertising Limited Partnership (collectively the "Sandbox units") acquired for US$22.0 million. The Sandbox units entitle the Corporation to receive an initial annual preferred distribution of US$3.3 million in priority to distributions on Sandbox's other LLC units. The Sandbox distribution will reset based on Net Revenue plus or minus 6%.

5. Investments (continued):

Investment in Providence Industries, LLC (“Providence”).

On April 1, 2016 the Corporation, through its wholly-owned subsidiary Alaris USA Inc., collectively contributed US$30.0 million to Providence. The Corporation is entitled to receive an initial annual preferred distribution of US$4.5 million in priority to distributions on Providence’s common shares. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Providence’s same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%. Distributions on the Providence units are receivable monthly.

Redemption of Solowave Design, LP (“Solowave”) Units

On September 30, 2016 Solowave sold its children’s play division which represented the majority of Solowave’s earnings and resulted in the repurchase of all Alaris Preferred Units in Solowave for total proceeds to Alaris of $44.6 million. The Corporation recognized a gain of $1.5 million through earnings as proceeds on redemption ($44.6 million) exceeded the total capital invested ($42.5 million) plus costs.

Investment in Unify, LLC (“Unify”) formerly Matisia, LLC

On October 10, 2016 Salaris USA Inc. announced a contribution of US$18.0 million to Matisia LLC in exchange for a total annual distribution of US$2.7 million. The Matisia contribution is comprised of US$12 million of permanent preferred units and US$6.0 million of redeemable preferred units. The Redeemable Matisia Units are expected to be short-term, and can be redeemed at any time at par by Matisia. After the initial annual preferred distribution, the distribution is an amount equal to the preferred distribution for the prior fiscal year multiplied by the percentage increase or decrease in Matisia’s same customer revenues for the previous fiscal year subject to a maximum increase or decrease of 5%.

Redemption of Mid-Atlantic Health Care, LLC (“MAHC”) Units

On December 22, 2016, MAHC was sold to a third party which resulted in the repurchase of all Alaris Preferred Units in MAHC (“MAHC Repurchase”) for total proceeds to Alaris of US$18.3 million, consisting of US$14.3 million on the redemption of the units and an additional US$4.0 million in owed distributions. The owed distributions represent the Corporation’s entitlement under the partnership agreement to a minimum of three years of distributions from its initial investment date regardless if a redemption takes place. The US$4.0 million has been included with MACH’s distribution revenue for the year ended December 31, 2016.

Assumptions used in fair value calculations:

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

The Corporation estimated the fair value of the available for sale financial assets (Investments at fair value) by evaluating a number of different methods:

a) A going concern value was determined by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation and estimates relating to changes in future distributions. For each individual partner, the Corporation considered a number of different discount rate factors including what industry they operated in, the size of the company, the health of the balance sheet and the ability of the historical earnings to cover the future distributions. This was supported by the historical yield of the original investment, current investing yields, and the current yield of Alaris’ publicly traded shares and of other similar public companies. Future distributions have been discounted at rates ranging from 13.25% - 19.50%. The Corporation considers the maximum repurchase price in all fair value adjustments of investments. All of the investments except as noted below were valued on this basis at December 31, 2017 and December 31, 2016.

b) A liquidation value is used when there is concern around the collection of future distributions and the partner company is in default with the Corporation. The liquidation value is calculated using the formula specified in each of the Partnership agreements while considering an estimate of the current value of the private company to determine if there would be sufficient value to cover the liquidation amount. If not, the value is reduced to what the calculation estimates may be recovered (the liquidation value). The Corporation’s investment in Agility and Group SM were valued on this basis at December 31, 2017 (December 31, 2016, KMH and Group SM).

From this analysis, management of the Corporation determined the fair value of the Investments at Fair Value and Loan Receivable for each individual Partner and below is a summary of the fair value adjustments in 2017 and 2016.

5. Investments (continued):

Investments at Fair Value *($ thousands)*	**Opening Fair Value**	**Additions**	**Disposals**	**Foreign Exchange Adjustment**	**Fair Value Adjustment**	**Closing Fair Value**
2017						
Lower Mainland Steel	$ 36,215	$ -	$ -	$ (422)	$ 125	$ 35,917
KMH	26,947	-	(26,947)	-	-	-
Labstat	49,199	-	-	-	12,125	61,324
Agility	26,965	-	-	(1,837)	1,004	26,133
SCR	30,488	-	-	-	(4,285)	26,203
Sequel	109,498	214	(101,466)	(8,246)	-	-
Group SM	40,217	-	-	-	(40,217)	-
Kimco	31,166	-	-	(2,122)	-	29,045
Planet Fitness	59,062	-	-	(4,021)	2,385	57,427
DNT	99,197	-	(2,694)	(6,569)	-	89,933
FED	75,680	16,947	-	(5,152)	3,314	90,788
Sandbox	30,538	16,342	-	(1,833)	1,469	46,517
Providence	40,950	-	-	(2,788)	2,498	40,661
Unify (formerly Matisia)	24,672	-	-	(1,680)	1,506	24,499
ccComm.	196	7,994	-	(249)	-	7,941
Accscient	-	26,473	-	(958)	-	25,514
SBI	-	107,270	-	(113)	-	107,157
Capitalized Costs	102	54	-	-	-	156
Investments at Fair Value - December 31, 2017	**$ 681,093**	**$ 175,293**	**$ (131,107)**	**$ (35,989)**	**$ (20,076)**	**$ 669,216**
2016						
LifeMark Health	$ 38,467	$ 27	$ (38,494)	$ -	$ -	$ -
Lower Mainland Steel	33,029	6,128	-	58	(3,000)	36,215
Solowave	50,474	-	(51,724)	-	1,250	-
KMH	35,001	-	(1,054)	-	(7,000)	26,947
Labstat	46,999	-	-	-	2,200	49,199
Agility	27,724	-	-	(759)	-	26,965
SCR	32,988	-	-	-	(2,500)	30,488
Sequel	108,904	-	-	(2,983)	3,577	109,498
Group SM	42,617	-	-	-	(2,400)	40,217
Kimco	45,352	2,731	-	(1,761)	(15,156)	31,166
Planet Fitness	58,275	-	-	(1,633)	2,421	59,062
DNT	97,843	-	-	(2,665)	4,020	99,197
FED	66,737	8,483	-	(1,243)	1,702	75,680
MAHC	19,522	243	(19,216)	(549)	-	-
Sandbox	177	30,296	-	66	-	30,538
Providence	-	38,129	-	2,822	-	40,950
Unify (formerly Matisia)	-	24,548	-	125	-	24,672
Capitalized Costs	-	298	-	-	-	298
Investments at Fair Value - December 31, 2016	**$ 704,109**	**$ 110,882**	**$ (110,488)**	**$ (8,524)**	**$ (14,886)**	**$ 681,093**

5. Investments (continued):

Royalties and Distributions:

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

Royalties and distributions:	**Year ended December 31**	
$ thousands	**2017**	**2016**
DNT	$ 14,216	$ 13,921
Sequel	12,174	15,937
FED	11,074	10,122
Planet Fitness	8,488	8,250
Labstat	7,940	5,500
Providence	5,843	4,420
Sandbox	4,909	3,507
LMS	4,746	4,653
SBI	4,642	-
Agility Health	3,972	4,074
Unify (formerly Matisia)	3,506	835
Accscient	1,926	-
End of the Roll	1,266	1,219
ccComm	883	-
SCR	600	3,008
Group SM	500	6,377
Solowave	-	5,160
Kimco	-	2,816
MAHC	-	7,958
LifeMark Health	-	730
Total Distributions	$ 86,684	$ 98,486
Other Income		
Interest	2,389	1,556
Total Revenue	**$ 89,073**	**$ 100,042**

Trade receivables are due mostly from three partner companies with the majority of the outstanding balance over 90 days. The Corporation continuously assesses the likelihood of collecting outstanding accounts receivable at each partner given their specific situation.

5. Investments (continued):

Trade & Other Receivables	31-Dec-17	31-Dec-16
$ thousands		
Group SM (1)	$ 544	$ 11,218
Agility (2)	2,973	2,382
Labstat (3)	4,239	2,468
Other Receivables	886	694
Balance at December 31, 2017	**$ 8,642**	**$ 16,762**

(1) Group SM includes unpaid interest on the $17 million unsecured promissory notes from January 2015 the full amount of which is expected to be collected in the next twelve months. Group SM is current on interest payments related to the $10 million of secured promissory notes and the Corporation collected $1.5 million of accrued interest on the $17 million unsecured promissory notes during the year ended December 31, 2017.

(2) Agility represents US$2.3 million (2016 – US$1.7 million). The Corporation collected all amounts due on February 28, 2018 as part of the redemption of the Agility units, see note 13.

(3) Labstat includes the cash flow sweep for 2017 distributions. The Corporation expects the collection of all Labstat receivables prior to April 30, 2018.

Should there be an adverse event in Labstat, or Group SM's businesses, collection could be negatively impacted.

Promissory Notes and Other Receivables:

As part of being a long-term partner with the companies the Corporation holds preferred interests in, from time to time the Corporation has offered alternative financing solutions to assist with short-term needs of the individual businesses. At December 31, 2017, the following is a summary of the outstanding promissory notes.

Promissory Notes and Other Receivables *($ thousands)*	Carrying Value		Notional Value	
Current	*31-Dec-17*	*31-Dec-16*	*31-Dec-17*	*31-Dec-16*
Group SM (3)	$ 10,000	$ -	$ 10,000	$ -
Labstat (2)	3,735	3,735	3,735	3,735
Agility (6)	1,255	-	1,255	-
SHS (4)	413	1,188	875	1,188
Total Current	$ 15,403	$ 4,922	$ 15,865	$ 4,922
Non-Current				
Group SM (3)	$ 11,600	$ 17,000	$ 17,000	$ 17,000
KMH (1)	-	3,500	-	3,500
Phoenix Secured Loan - US (1)	10,047	-	12,400	-
Phoenix Secured Loan - CDN (1)	3,784	-	8,033	-
Kimco (5)	6,586	4,391	10,607	5,994
Total Non-current	$ 32,017	$ 24,891	$ 48,041	$ 26,494
Balance at December 31, 2017	**$ 47,420**	**$ 29,814**	**$ 63,906**	**$ 31,417**

5. Investments (continued):

The Corporation expects and will continue to pursue recovery of the full notional value for all outstanding promissory notes. The differences between carrying value and notional value is due to the timing and uncertainty surrounding the collection of cash flows. See below footnotes for additional details on each promissory note.

(1) See the heading "Redemption of KMH Limited Partnership ("KMH") Units" earlier in note 5 for details of the $3.5 million outstanding at December 31, 2016. The Corporation expects to receive approximately $12.4 million of value at conculsion of the U.S. business sales process. The remainder of approximately $8.3 million will be collected over time and is secured by the former owners of KMH's capital assets. Due to the long- term collection horizon, the Corporation has discounted this portion of the outstanding secured loan using a five year term and a 5% discount rate (reflective of their previous secured lender). The note will be accreted to the face value of the note over its estimated five year life. The secured long term loans and the prior period promissory note are non-interest bearing. Due to the uncertainty surrounding the discounted cash flows the Corporation recorded an incremental reserve of $5.1 million for the year ended December 31, 2017.

(2) Labstat note (interest at 7%) is due July 2018, and is expected to be received in full.

(3) During the year ending December 31, 2017 the Corporation provided $10 million to Group SM as short term financing as they repaid a previous senior lender who had demanded repayment. The funds are being used by Group SM to fund working capital in lieu of a senior revolving credit facility. The first $10 million is secured against outstanding accounts receivable and has a first lien on the business and bears interest at 10% per annum. In addition, Group SM has a $17 million unsecured demand note (interest at 8%) outstanding, subordinate to a third party loan. The collection of both the secured and non-secured notes are expected at the completion of the ongoing restructuring process. While the process is expected to be resolved in the next twelve months, due to the uncertainty surrounding this timing they have been classified as long-term. Due to the uncertainty of timing of future repayments of the $17 million unsecured promissory note, the Corporation recorded a reserve of $5.4 million. The allowance is recorded as a bad debt expense. The carrying value of the $17 million unsecured promissory note was classified as current as of December 31, 2016. Should there be adverse developments in the restructuring process, collection of a portion up to the entire $17 million of unsecured notes could be impacted.

(4) SHS Services Management, LP ("SHS") note is non-interest bearing and secured against certain assets of the SHS business. The Corporation received partial settlement on the SHS note of $0.3 million in March 2016 and an additional $0.3 million in July 2017. With Sears Canada Inc. formally entering bankruptcy the Corporation negotiated a payment of $0.4 million for the remainder of the loan to avoid entering a legal process. The difference between the carrying value ($0.8 million) and proceeds of $0.4 million was recorded as a bad debt expense during the period. Subsequent to December 31, 2017 the Corporation received the $0.4 million outstanding.

(5) Accrued distributions totaling US$4.5 million were reclassified to long-term receivables during 2016. Upon reclassification, the amounts due were discounted to reflect the long-term collection horizon. The carrying value at December 31, 2017 reflects that the Corporation expects to receive these amounts over a five year period. The company recorded US$0.1 million of accretion during the year ending December 31, 2017. In addition, the Corporation contributed an additional US$4 million during the year ended December 31, 2017 to provide Kimco with balance sheet flexibility to grow the business under new management. Kimco is currently paying monthly interest of 8% on the US$4.0 million promissory note. Due to the uncertainty surrounding the timing around collection, the Corporation recorded an incremental reserve of $2.6 million for the year ended December 31, 2017.

(6) The Corporation issued a US$1 million promissory note to Agility during the year ended December 31, 2017 due to the timing of payments and collections causing short term liquidity constraints. Subsequent to December 31, 2017 the Corporation issued an additional US$0.5 million to fund working capital. The note is payable on demand, bears interest at 10% per annum and was collected February 28, 2018 as part of the redemption of the Agility units.

Should there be an adverse event to any of the above businesses, collection could be negatively impacted.

The Corporation recorded bad debt expense of $23.4 million for the year ended December 31, 2017 (December 31, 2016 - $2.5 million). This consisted of $10.3 million of write offs as distributions accrued but not received from Group SM ($9.8 million) and a reduction of the SHS promissory note ($0.5 million) will not be received. The Corporation also recorded a $13.2 million reserve on outstanding promissory notes with Group SM ($5.4 million), Phoenix ($5.1 million) and Kimco ($2.6 million) as the probability of receiving the entire amount outstanding is not assured. The allowance is recorded as a bad debt expense and will be recovered from the respective strategic processes and recapitalization if the proceeds are in excess of the Corporation's carrying value. For the year ended December 31, 2016 the Corporation recorded a bad debt expense on KMH interest ($0.9 million) and the outstanding promissory note ($1.5 million).

5. Investments (continued):

Bad Debt Expense and Reserve *($ thousands)*	**31-Dec-17**	**31-Dec-16**
Write Offs		
SHS	$ 463	$ -
Group SM	9,813	-
Total Write offs	10,276	-
Reserve		
Group SM - Unsecured Promissory Note	$ 5,400	$ -
Phoenix Secured Loan - US (1)	2,353	-
Phoenix Secured Loan - CDN (1)	2,780	-
KMH	-	2,442
Kimco	2,621	-
Total Reserve	$ 13,154	$ 2,442
Total Bad Debt Expense	**$ 23,430**	**$ 2,442**

Intangible Assets:

The Corporation holds intangible assets in End of the Roll of $6.1 million (December 31, 2016 - $6.2 million), net of accumulated amortization of $1.2 million (December 31, 2016 - $1.1 million).

6. SHARE CAPITAL

Issued Common Shares	**Number of Shares**	**Amount ($)**
	thousands	*$ thousands*
Balance at January 1, 2016	36,303	$ 617,627
Issued after employee vesting	1	-
Cashless options exercised in the period	33	-
Fair value of options exercised in the period	-	266
Balance at December 31, 2016	36,336	$ 617,893
Issued after employee / director vesting	109	2,512
Cashless options exercised in the period	36	-
Fair value of options exercised in the period	-	438
Balance at December 31, 2017	**36,481**	**$ 620,842**

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

Weighted Average Shares Outstanding	**Year ended December 31**	
thousands	**2017**	**2016**
Weighted average shares outstanding, basic	36,447	36,336
Effect of outstanding options	15	74
Effect of outstanding RSUs	292	302
Weighted average shares outstanding, fully diluted	36,754	36,711

1,723,160 options were excluded from the calculation as they were anti-dilutive at December 31, 2017 (December 31, 2016 - 669,799).

6. Share Capital (continued):

Dividends

The following dividends were declared and paid in the month following by the Corporation:

In each month of 2017, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $59.0 million in aggregate). In each month of 2016, the Corporation declared a dividend of $0.135 per common share ($1.62 per share and $58.8 million in aggregate).

7. Loans and Borrowing

As at December 31, 2017 the Corporation had a $200 million credit facility with a syndicate of Canadian chartered banks, the facility has a four year term with a maturity date in September 2021. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. When Funded Debt to Contract EBITDA is below 2.25:1, Prime and USBRs are plus 2.25% and BAs and LIBOR are plus 3.25%. When Funded Debt to Contract EBITDA is above 2.25:1, Prime and USBRs are plus 2.75% and BAs and LIBOR are plus 3.75%. The Corporation realized a blended interest rate of 5.3% for the year ended December 31, 2017. At December 31, 2017, the facility was $173.5 million drawn (December 31, 2016 - $99.4 million).

At December 31, 2017, the Corporation met all of its covenants as required by the facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1 (actual ratio is 1.97:1 at December 31, 2017); minimum tangible net worth of $450.0 million (actual amount is $598.4 million at December 31, 2017); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.07:1 at December 31, 2017).

The Corporation had US$112.7 million of USD denominated debt as of December 31, 2017 (December 31, 2016 US$53.0 million), subsequent to December 31, 2017 the Corporation repaid US$26.5 million of USD denominated debt. The Corporation began funding USD transactions with USD debt in 2016.

Debt Continuity	Denominated Debt	
$ thousands	**$USD**	**$CAD**
Balance at December 31, 2016		**$ 99,383**
Senior debt advance (Accscient)	13,000	17,190
Senior debt advance (Kimco Prom Note)	-	4,000
Senior debt advance (SBI)	85,000	106,232
Senior debt advance (ccComm)	2,200	2,750
Senior debt repayment (Sequel, net of tax payment)	(82,500)	(103,414)
Senior debt advance (Sandbox Tranche #2)	6,000	7,393
Senior debt advance (FED Tranche #3)	14,000	17,780
Senior debt advance (Sandbox Tranche #3)	7,000	9,004
Senior debt advance (Heritage)	15,000	19,317
Unrealized FX (gain) / loss on USD denominated debt		(6,169)
Balance at December 31, 2017		**$ 173,464**

8. Share-based payments

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

The RSU Plan will settle in voting common shares which may be issued from treasury or purchased on the Toronto Stock Exchange. The Corporation has reserved 455,551 and issued 291,651 RSUs to management and Directors as of December 31, 2017. The RSUs issued to directors (93,605) vest over a three year period. The RSUs issued to management (198,046) do not vest until the end of a three year period (119,000 in July 2018, 47,080 in July 2019, and 31,966 in October 2020) and are subject to certain performance conditions relating to operating cash flow per share. The stock-based compensation expense relating to the RSU Plan is based on the issue price at the time of grant and management's estimate of the future performance conditions and will be amortized over the thirty-six month vesting period.

8. Share-based payments (continued):

The Corporation has reserved 2,574,073 and issued 2,242,364 options as of December 31, 2017. The options outstanding at December 31, 2017, have an exercise price in the range of $20.60 to $33.87, a weighted average exercise price of $25.56 (2016 – $26.94) and a weighted average contractual life of 2.97 years (2016 – 1.97 years).

For the year ended December 31, 2017 the Corporation incurred stock-based compensation expenses of $3.4 million (2016 - $4.4 million) which includes: $2.1 million (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2016 - $3.2 million); and $1.2 million (non-cash expense) for the amortization of the fair value of outstanding stock options (2016 - $1.1 million).

Options Summary	Weighted Avg Exercise Price 2017	Number of Options - 2017	Weighted Avg Exercise Price 2016	Number of Options - 2016
Outstanding at January 1	$26.94	1,726,182	$26.93	1,966,484
Exercised during the year	$19.40	(197,525)	$15.76	(70,500)
Expired during the year	$23.63	(356,511)	$0.00	-
Forfeited during the year	$0.00	-	$31.50	(169,802)
Granted during the year	$21.56	1,070,218	$0.00	-
Outstanding at December 31	$25.56	2,242,364	$26.94	1,726,182
Exercisable at December 31	$30.38	865,788	$17.19	1,114,662

The following table summarizes the options outstanding and exercisable as at December 31, 2017:

Exercise price	Number outstanding		Weighted average remaining life (years)		Number exercisable	
	2017	2016	2017	2016	2017	2016
$16.87	N/A	122,525	N/A	0.10	N/A	122,525
$23.53	N/A	428,011	N/A	0.67	N/A	428,011
$33.87	407,560	411,060	0.56	1.56	407,560	308,295
$26.79	45,000	45,000	1.05	2.05	45,000	22,500
$31.15	193,739	193,739	1.59	2.59	145,304	96,870
$33.06	20,000	20,000	1.70	2.70	15,000	10,000
$24.78	505,847	505,847	2.57	3.57	252,924	126,462
$22.47	521,014	N/A	4.07	N/A	-	N/A
$22.33	30,000	N/A	4.20	N/A	-	N/A
$20.60	519,204	N/A	4.78	N/A	-	N/A
Total	2,242,364	1,726,182	2.97	1.97	865,788	1,114,663

8. Share-based payments (continued):

The fair value of the options was calculated using a Black-Scholes model with the following assumptions:

Issue Date	Dividend Yield	Expected Volatility	Risk Free Rate of Return	Expected Life	Weighted Average Value
Jan-17	7.17%	26.38%	1.14%	4.325	$2.05
Mar-17	7.20%	27.45%	1.10%	4.325	$2.19
Oct-17	7.69%	27.75%	1.57%	4.325	$2.02

During the year ending December 31, 2017, the Corporation issued 31,966 RSU's and 1,070,218 stock options with an average exercise price of $21.56. During the year ending December 31, 2017, the Corporation issued 35,711 shares as a result of the exercise of options and 109,479 shares as a result of vested RSUs.

9. INCOME TAXES

The Corporation's consolidated effective tax rate for the year ended December 31, 2017 was 26.32% (year ended December 31, 2016 – 26.29%). The change in the Corporation's consolidated effective tax rate from 2016 was caused by income being allocated to different provinces than in the prior year.

Income tax expense is calculated by using the combined federal and provincial and state statutory income tax rates. The provision for income tax (deferred and current) differs from that which would be expected by applying statutory rates. A reconciliation of the difference is as follows:

Income Tax Expense	2017	2016
Earnings before income taxes	$ 22,155	$ 86,142
Combined federal and provincial statutory income tax rate	26.32%	26.29%
Expected income tax provision	$ 5,831	$ 22,647
Rate differences of foreign jurisdictions	(249)	(5,151)
Impact of change in US federal tax rates	(5,975)	-
Non-taxable portion of capital gains	8,649	(743)
Non-deductible expense and other	2,620	1,234
Prior period adjustment	(602)	1,603
Balance at December 31, 2017	**$ 10,274**	**$ 19,589**

Cash taxes paid during the year were $26.6 million ($7.9 million in 2016) which includes $16.0 million of cash taxes related to the gain on redemption of Sequel units.

9. Income taxes (continued):

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

Deferred income tax assets (liabilities):	2017	2016
Equipment	$ (2)	$ (2)
Share issue costs	1,035	2,164
Intangible assets	(1,681)	(1,691)
Investment tax credits	(1,500)	(2,263)
Preferred partnership units	(8,523)	(17,995)
Partnership deferral	6,061	50
Investment in sub or other items	691	4,105
Derivatives	(1,626)	(3,006)
Foreign exchange on loan receivable	(205)	(552)
Distributions to be taxed in future years	(2,442)	(3,268)
Balance at December 31, 2017	**$ (8,192)**	**$ (22,458)**

As at December 31, 2017, the Corporation has unused federal investment tax credits which expire from time to time as follows:

Unused Federal Investment Tax Credits	2017
2022	$ 468
2023	1,841
2024	648
Balance at December 31, 2017	**$ 2,957**

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2016	**$ (19,491)**
Recognized in profit and loss	(12,484)
Reduction to investment tax credit	3,659
Recognized in other comprehensive income	5,613
Currency translation and other	245
Balance at December 31, 2016	**(22,458)**
Recognized in profit and loss	11,815
Reduction to investment tax credit	1,898
Recognized in other comprehensive income	(984)
Currency translation and other	1,537
Balance at December 31, 2017	**$ (8,192)**

9. Income taxes (continued):

In 2015, the Corporation received a notice of reassessment from the Canada Revenue Agency in respect of its taxation year ended July 14, 2009. The Corporation has since received notices of reassessment from the Canada Revenue Agency in respect of its taxation years ended December 31, 2009 through December 31, 2016 (collectively the "Reassessments"). Pursuant to the Reassessments, the deduction of approximately $121 million of non-capital losses and utilization of $5.2 million in investment tax credits by the Corporation was denied, resulting in reassessed taxes and interest of approximately $44.4 million. Subsequent to filing the notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA pursuant to which the CRA is proposing to apply the general anti avoidance rule to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. The proposal does not impact the Corporation's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments. The Corporation has received legal advice that it should be entitled to deduct the non-capital losses and as such, the Corporation remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Corporation intends to continue to vigorously defend its tax filing position. In order to do that, the Corporation was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Corporation has paid a total of $19.3 million in deposits to the CRA relating to the Reassessments to date, including $3.0 million deposited in 2017. It is possible that the Corporation may be reassessed with respect to the deduction of its non-capital losses in respect of its tax filings in respect of the 2017 taxation year, on the same basis. The carrying values of the remaining ITC's of $3.0 million at December 31, 2017 and the ITC's claimed in 2017 of $3.5 million are at risk should the Corporation be unsuccessful in defending its position. The Corporation anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Corporation's payout ratio.

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

Tax Year	ITCs Applied	Losses Applied	Estimated tax and interest
July 2009		$ 10,532	$ 4,310
December 2009		1,916	748
December 2010		14,646	5,486
December 2011		14,992	5,113
December 2012		16,774	4,462
December 2013		22,642	6,519
December 2014		29,153	8,493
December 2015	2,315	10,560	4,417
December 2016	2,905	-	4,836
Balance at December 31, 2017	**$ 5,220**	**$ 121,215**	**$ 44,384**

On December 2017, the United States government enacted the tax Cuts and Jobs Act ("US Tax Reform") with the majority of the legislation being effective January 1, 2018. The impact of this legislation on the Corporation's 2017 financial statements is a reduction in the deferred income tax liability of $6 million as a result of the reduction in the federal income tax rate from 35% to 21%.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The following items shown on the consolidated statement of financial position as at December 31, 2017 and December 31, 2016, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates and estimates used to determine changes in future distributions from each investment are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the year ended December 31, 2017.

Fair value classification	*($ thousands)*	Level 1	Level 2	Level 3	Total
31-Dec-17					
Foreign exchange contracts		$ -	$ 1,430	$ -	$ 1,430
Investments at fair value		-	-	669,216	669,216
Total at December 31, 2017		**$ -**	**$ 1,430**	**$ 669,216**	**$ 670,646**
31-Dec-16		**Level 1**	**Level 2**	**Level 3**	**Total**
Foreign exchange contracts		$ -	$ (712)	$ -	$ (712)
Investments at fair value		-	-	681,093	681,093
Total at December 31, 2016		$ -	$ (712)	$ 681,093	$ 680,381

Financial instruments whose fair value is equivalent to its carrying value are omitted from the above table (these include: cash and cash equivalents, trade and other receivables, promissory note receivable, accounts payable and accrued liabilities, loans and borrowings).

The Corporation purchases forward exchange rate contracts to match expected after tax distributions in US dollars on a rolling 12 month basis and also for between 25% to 50% of the expected distributions on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$33.6 million (US$49.1 million as of December 31, 2016) with maturity dates between January 2018 and October 2019.

11. COMMITMENTS

The Corporation's annual commitments under its current office lease are as follows:

Commitments		31-Dec-17
2018		421
2019		432
2020		216
	$	**1,068**

12. Related Parties

In addition to their salaries, the Corporation also provides long-term compensation in the form of options and RSUs. Key management personnel compensation comprised the following:

Key Management Personnel	2017	2016
Base salaries and benefits	$854	$876
Bonus	407	519
Share-based payments (non-cash)	2,033	520
Total	**$3,294**	**$1,916**

13. Subsequent Events

Increase in Credit Facility

Subsequent to December 31, 2017, the Corporation received an increase in their revolving credit facility which included (i) an increase in capacity to $280 million ($200 million as of December 31, 2017); (ii) an increase in the accordion facility to $70 million ($50 million as of December 31, 2017). The maximum senior debt to contracted EBITDA was increased to 2.5:1 which can extend to 3:1 for a period of 90 days (previously 1.75x with an extension to 2.25x, this amendment was effective for the quarter ending December 31, 2017). The tangible net worth, fixed charge coverage ratio covenants, interest rate spread, and standby fees remained consistent with the prior agreement.

Investment in Heritage Restoration, LLC ("Heritage")

On January 23, 2018, the Corporation entered into subscription and operating agreements with Heritage Restoration, Holdings, LLC ("Heritage"), pursuant to which the Corporation invested US$15.0 million ("Heritage Contribution") in exchange for preferred units in Heritage (the "Heritage Units"). The Corporation is entitled to an annual distribution of US$2.25 million ("Heritage Distribution") for the first full year following the transaction, which equates to an initial yield of 15%. US$3.0 million of the Heritage Units are redeemable at par at any time. The performance metric dictating the annual percentage change in the Heritage Distribution is gross margin, subject to a 6% collar and will reset for the first time on January 1, 2019. The Heritage Contribution was used to fund the management buyout of the existing shareholder.

Agility

Subsequent to December 31, 2017, the Corporation successfully redeemed all of its units in Agility as a result of the sale of Agility to a third party. Gross proceeds to Alaris from the Agility Sale consist of: (i) US$22.2 million for the preferred units Alaris holds in Agility LLC, which includes a premium of US$2.1 million over Alaris' original cost of US$20.1 million (currently held at a fair value of $20.0 million); (ii) US$2.9 million for all unpaid distributions up to February 28, 2018; and (iii) US$1.6 million for a loan outstanding, including all principal and interest accrued on such loan. US$1.5 million of the Repurchase Price to be paid to Alaris will be placed in escrow for 18 months to satisfy indemnification obligations under the transaction. Following the escrow period any remaining escrowed funds will be paid to Alaris. Total proceeds received by the Corporation went toward debt reduction of US$26.5 million (approximately CAD$34.0 million) against the CAD$173.5 million outstanding at December 31, 2017.

Directors

Jack C. Lee, Chairman of the Board of Directors
Audit Committee

Steve King, Director
President and Chief Executive Officer

John P. Budreski, Director
Corporate Governance & Compensation Committee

Mitch Shier, Director
Corporate Governance &Compensation Committee

Mary Ritchie, Director
Chair – Audit Committee

Gary Patterson, Director
Audit Committee

Bob Bertram, Director
Corporate Governance & Compensation Committee
Audit Committee

Officers

Steve King
President and Chief Executive Officer

Darren Driscoll
Chief Financial Officer

Mike Ervin
Chief Legal Officer, Corporate Secretary

Gregg Delcourt
Senior Vice President, Small Cap Investments

Curtis Krawetz
Vice President Investments and Investor Relations

Liz McCarthy
Vice President Legal

Amanda Frazer
Vice President Investments

Dan Bertram
Vice President Business Development

Devin Timberlake
Vice President Business Development

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

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