Alaris Royalty Corp.

Annual Report

For the fiscal year end December 31

2011

LOW VOLATILITY . VISIBILITY . DIVERSIFICATION . LIQUIDITY . GROWTH

Special Note Regarding Forward-Looking Statements and Non-IFRS Measures

Alaris' public communications often include written or oral statements which contain forward-looking information. Statements of this type are included in this annual report and may be included in our other filings with Canadian securities regulators, or in our other communications. 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 of such words. All such statements are made pursuant to the applicable provisions of, and are intended to be forward-looking statements under applicable Canadian securities legislation. Statements containing forward-looking information include, but are not limited to, comments with respect to our objectives and priorities for 2012 and beyond, our growth strategies or future actions, the future actions and expected funding requirements of our Private Company Partners (as described herein) and the results of or outlook for our operations and those of our Private Company Partners, or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Assumptions about the performance of the Canadian and U.S. economies in 2012 and how that will affect our business and our ability to identify and close new opportunities with new Private Company Partners are material factors we considered when setting our strategic priorities and objectives, and our outlook for our business. Key assumptions include, but are not limited to, assumptions that the Canadian and U.S. economies will continue to grow moderately in 2012; that interest rates will remain low; that our Private Company Partners will continue to make distributions to Alaris as and when required; that the businesses of our Private Company Partners will continue to grow; that Alaris will experience positive resets to our annual royalties and distributions from our Private Company Partners in 2012; that tax rates and tax laws will not change significantly in Canada, the U.S. or the Netherlands; that more private companies will require access to alternative sources of capital; and that we will have the ability to raise required equity and/or debt financing on acceptable terms. We have also assumed that capital markets will continue to improve and that the Canadian dollar will strengthen modestly relative to the U.S. dollar. In determining our expectations for economic growth, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies.

There is a significant risk that our predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. Although we believe that the expectations and assumptions reflected in our forward-looking statements are reasonable, we caution readers of this Annual Report not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to those factors listed under the heading "*Risks & Uncertainty*" in our Management Discussion and Analysis herein. We caution that this list of risk factors is not exhaustive. Other factors could adversely affect our results. When relying on forward-looking statements to make decisions with respect to Alaris, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Alaris does not undertake to update any forward-looking statements, whether written or oral, that may be made, from time to time, by the organization or on its behalf, except as required by law. The forward-looking statements contained in this document are presented for the purpose of assisting our investors in understanding our operations, prospects, risks and other external factors that impact us specifically as at and for the periods ended on the dates presented, and may not be appropriate for other purposes.

Non-IFRS Measures

The terms "EBITDA" and "distributable cash" (the "Non-IFRS Measures") are financial measures used in this Annual Report that are not standard measures under International Financial Reporting Standards ("IFRS"). Alaris' method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Alaris' Non-IFRS Measures may not be comparable to similar measures presented by other issuers.

EBITDA refers to net earnings (loss) 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 our ability to generate cash available for debt service, working capital, capital expenditures, income taxes and dividends.

Distributable Cash means Alaris' net income prepared in accordance with IFRS excluding non-cash items that include stock-based compensation expense, future income taxes, and depreciation and amortization.

GLOSSARY OF TERMS

In this Annual Report, unless the context otherwise requires, the following words and phrases shall have the meanings set forth below:

“**Centric**” means Centric Health Corporation, a CBCA corporation having its common shares listed and trading on the TSX.

"**Distribution**" means each distribution received by Alaris from each of the Private Company Partners as more particularly described under the heading “Description of the Business and Operation- Our Structure” in this AIF.

"**End of the Roll**" means End of the Roll Carpet & Vinyl, a corporate partnership established under the laws of the Province of British Columbia.

“**Killick**” means Killick Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

"**KMH**" means KMH Limited Partnership, a limited partnership established under the laws of the Province of Ontario.

"**LifeMark Health**" means LifeMark Health Limited Partnership, a limited partnership established under the laws of the Province of Alberta.

"**MEDIchair**" means MEDIchair Ltd., a corporation incorporated under the CBCA.

“**MRO**” means maintenance, repair and overhaul as it relates to the business of Killick.

"**Private Company Partner**" and “**Private Company Partners**” means those corporations, partnerships or other entities with which Alaris has directly or indirectly entered into an alternative financing structure including LifeMark, EOTR, LMS, KMH, Solowave, Killick & Quetico.

“**Quetico**” means Quetico LLC, a limited liability corporation formed under the laws of the State of California, USA.

"**Solowave**" means Solowave Design LP, a limited partnership established under the laws of the Province of Ontario.

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PRESIDENTS MESSAGE

Before I start writing a President's Message, I like to go back and read what I wrote the previous year, particularly as it relates to the guidance that I gave to shareholders for the year ahead. I must admit that it is always a great relief when the stated goals of the year before can be talked about as items accomplished. In fairness, the management and board of directors of Alaris do have a distinct advantage over other companies when it comes to predicting the future as our business model is unique in its simplicity and also in its contractual nature of future revenues. Aside from adding new private company partners throughout the year, we already know within a very small margin what our revenues will be for the coming year. This has been a very nice feature of our business model both for management and for shareholders.

Looking back, though, I did not foresee one of the largest events in our company's history; the takeover of our largest partner, LifeMark, by Centric Health in June. LifeMark has been our longest standing partner and still remains our largest source of revenue. After seven years, seven separate capital contributions and 60 acquisitions, the management team of LifeMark came to us looking to crystalize the incredible value that they had created. They had found a partner that they were excited to work with going forward in Centric and we accommodated their request while still protecting the goals of Alaris shareholders. The end result was the reduction of our financial interest in LifeMark and disposition of our interest in MEDIChair for total proceeds of $65 million. This allowed us to stay involved in a very steady cash flowing asset, allowed us to be supported by the combined cash flows of all of Centric's operations and also allowed us to negotiate a guaranteed 4% annual increase in our distribution from LifeMark.

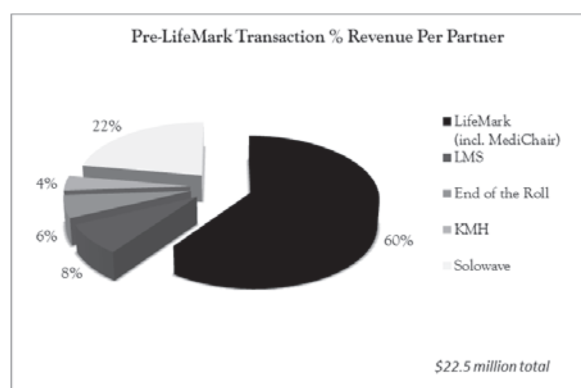
Not only was this a very large financial gain for Alaris, it also marked the first time that one of our partner companies has changed hands since we were founded. The benefits from this transaction are numerous. Aside from the $28 million gain, the transaction showcased for future partners how our unique structure can benefit them much more so than traditional private equity. The management of LifeMark were able to continually access capital from us to fund their acquisition strategy all while actually increasing their economic interest in their company. Showing potential new partners these actual results and also showing entrepreneurs that they do have the ability to sell their company with us as a partner has been a positive boost to our efforts of bringing in the top private companies in North America as future partners.

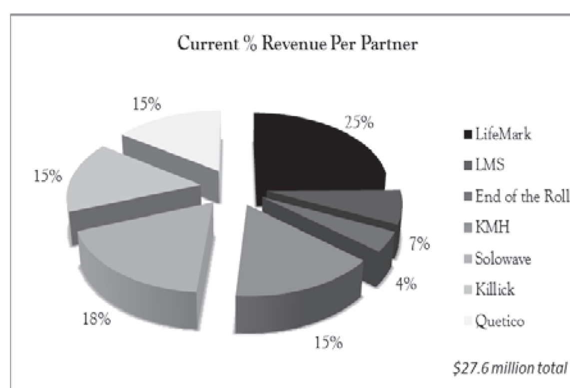
While the LifeMark transaction was the feature event of the year, the ongoing business model continued to pay dividends for our shareholders. Eliminating the gains from the LifeMark transaction, the following table gives a snapshot of the 2011 fiscal year:

	2010	2011	% Change	2012 Run Rate
Revenue	16,657,034	21,497,960	29.1%	27,768,900
G&A	2,131,167	3,291,856	54.5%	3,200,000
Normalized EBITDA	12,710,076	16,112,725	26.8%	24,298,900
EBITDA Margin	76.3%	75.0%	-1.8%	87.5%
Debt	29,200,000	6,500,000	-77.7%	4,500,000
Basic Shares O/S	16,426,604	19,475,210	18.6%	
Fully Diluted Shares O/S	16,974,318	20,034,604	18.0%	
Dividends per share	$ 0.95	$ 1.04	10.1%	$ 1.14
Share Price	$ 11.60	$ 18.00	55.2%	
Total Return	37.0%	64.1%		
Market Cap - Basic	190,548,606	350,553,780	84.0%	
Market Cap - FD	196,902,089	360,622,872	83.1%	

2011 In Review

The first half of 2011 was spent negotiating the LifeMark transaction and also sourcing, negotiating and structuring new partnerships through which we would contribute the proceeds from LifeMark. In June 2011, Alaris received proceeds of $65 million for a reduction of our interest in LifeMark and disposition of our interest in MediChair. Through the course of the next six months of 2011, Alaris contributed more than $76 million in two new partnerships as well as a further contribution to a current partner. The net result of those transactions was a significant increase in our distributable cash per share as well as a dramatic change in the diversification of our revenue stream. The following chart gives an excellent look at how our revenue stream has been diversified over the past twelve months:





The first new partner added in 2011 was Killick Aerospace LP in July. Killick is a Canadian owned partnership with operations headquartered in the US and a revenue base from around the world. The company provides services centered around the maintenance, repair and overhaul MRO of airplane engines. The MRO business tends to be quite steady in that airplane engines are highly regulated and the servicing of those engines is mandated by regulatory authorities. Killick offers tremendous management, steady cash flow and margins, low debt and capital expenditure levels and Alaris' distributions from Killick represent only a small part of the company's total free cash flow. Our agreement with Killick also includes a collar on our distribution such that we cannot experience more than a 4% change in our distribution in any given year. Stable industry, stable management, stable cash flow stream and lots of ability to pay - the exact type of transaction that Alaris looks for.

In October, Alaris contributed $22.4 million to KMH, a partnership that we established in 2010 with the joint view of growing through acquisition just as we had done with LifeMark over the past seven years. KMH acquired two large medical diagnostic facilities in the US that contributed greatly to its free cash flow as well as its management capabilities. Just like LifeMark's physiotherapy business, diagnostics has displayed the kind of low volatility, non-cyclical results that we value. We hope to continue to fund strategic, accretive acquisitions for KMH going forward as they continue to pursue its proven business plan.

November marked another landmark event for Alaris as we closed our first US – based partnership with the contribution of US$26.9 million to Quetico. Quetico is a fascinating company based in California that provides inventory management services to both big-box retailers as well as textile and accessory manufacturers. Over the course of the last twenty years, Quetico has made itself an integral part of the product and cash flow cycle. In difficult times like what we've seen in the economy over the last three years, cash flow management has become more important than ever and at the same time, big-box retailers have gained market share as consumers search for greater value for their shopping dollar. Both of these factors have combined to drive exceptional growth for Quetico. For our part, Alaris was able to provide liquidity for a deceased partner's estate as well as partial liquidity for the two remaining founders in a way that no other equity provider could. As we have found with all of our other partnerships, a true win-win outcome was generated.

The Path Forward

While we will remain very strict on the quality of new partners that we will bring into our company, our goal for 2012 is to contribute more than the $76 million that we did in 2011. This activity would reduce risk to our revenue stream by providing more diversification. In addition, it would add to our distributable cash per share because of the strong relationship between the returns generating from our partners and the attractive cost of capital that we enjoy with our shares as well as our debt facility.

2012 also promises to be an excellent year for organic growth as our partners continue to operate growing and highly profitable businesses. In particular, LMS Group has been reporting modest growth as it continues to recover from a very difficult period starting in 2008. All seven of our partners are on track for increases to our distributions and we couldn't be more proud of our partnership with them as managers or more appreciative of their efforts and accomplishments.

With only $4.5 million of our credit facility drawn down at the time of this writing, Alaris has excellent flexibility on our balance sheet to close future partnerships. This is a very important feature that we have now for the first time as a public company. We intend to keep our debt levels low, other than for short

periods, in order to give the required assurance to prospective partners that we have the ability to close transactions without public market risk.

The strength of our balance sheet, as well as the exceptional growth we've had over the last few years is due to the tremendous support that we have had from our shareholders. Through volatile markets, it has been a tremendous asset for us in our business model to know that we have access to large amounts of equity and senior debt. I'd like to thank all of our stakeholders for this support and hope to continue to reward our supporters with the kind of returns that we have been able to achieve for the last few years.

I'd also like to thank our dedicated staff, board of directors, and countless service providers for all of their hard work in what was a very busy year.

Steve King

President and CEO

Description of the Business and Operations

Our Business

We are a Canadian company that provides alternative financing to a diversified range of profitable, well-managed private businesses in North America. We use an innovative financing structure that allows us to provide capital in a manner that maximizes valuations, is tax effective and allows existing owners of the private companies to retain control of their businesses. Our primary objective is to generate predictable, stable cash flows from our Private Company Partners to allow us to provide an attractive yet stable yield as well as liquidity to our investors.

Our Structure

We provide cash financing to private companies at an agreed upon valuation, in exchange for a pre-determined distribution or royalty from such private companies. Our Distribution is received monthly but is determined twelve months in advance in accordance with a mutually agreed upon performance metric which is based upon a "top-line" financial performance measure of a Private Company Partner, such as gross revenues, gross profit, same store sales, same clinic sales and same customer net sales. Each year, our Distribution is adjusted based on the percentage change in the audited performance metric. In keeping with our business objective of generating predictable, stable cash flows, our Distribution is only based on organic growth and/or organic decline of the private company. As such, any growth or decline in the private company from acquisitions, new locations or margin improvements do not get factored into such adjustment for a period of time (typically 12-24 months).

Our Distribution ranks in priority to the Private Company Partner's common equity. In addition, the Distribution is paid by the Private Company Partner out of earnings before taxes, making the after-tax cost of our financing attractive to our Private Company Partners. Our financing structure is characterized as equity, and as a result, principal payments of our financing are not required.

We do not have any significant influence over any of our Private Company Partners nor do we have any ability to exercise control over the Private Company Partners. In most cases, we do not have any voting rights over the Private Company Partners, and where we do have voting rights, we have only a small percentage of the votes (less than 15%).We do not have any significant ability to participate in management decisions and are not involved in the day-to-day operations of the Private Company Partner within the normal course of business. However, we do require Private Company Partners to provide us with monthly (unaudited) financial statements so we can monitor their financial health, as well as annual (audited) financial statements. Although we generally do not have any significant voting rights, we have strong protective covenants in place with our Private Company Partners to protect our Distributions and typically require our prior consent on a number of items outside of the ordinary course of business, such as:

- Any material change in business of the company
- Material acquisition or divestiture
- Incurring new debt over predetermined levels, or any material change to existing debt facilities
- Entering into non-arm's length transactions above prescribed levels
- Mergers or corporate reorganizations
- Extraordinary capital expenditures

Our Philosophy

Our structure allows us to monitor our Private Company Partners without needing to be involved in their day-to-day business decisions. We believe business decisions are best made by the people who have built the successful companies that we provide financing to. Through us, such private companies are able to access ongoing capital, remain private and their owners are able to maintain control of their common voting equity.

At the same time, we derive diversified priority-cash returns from businesses that have displayed an ability to be highly profitable in varying economic environments. By supporting management teams that remain fully motivated by their ownership position to run their business profitably, our security holders are able to receive stable monthly dividends based on distributions received by us from our Private Company Partners that are set twelve months in advance.

In addition, our philosophy is to partner with our Private Company Partners for as long as required by the Private Company Partner, and we do not force an exit strategy upon the owners at any time. A financing by Alaris does not prevent the private company from undertaking a future sale of such company if desired, provided that our prior consent is obtained.

The result for our investors is a revenue stream that generally has low volatility and high predictability due to the "top line" royalty nature of our distributions from our Private Company Partners. Visibility is also created because of the twelve month pre-set payments we receive. Our structure gives us the ability to pay out the vast majority of our revenues in the form of tax effective eligible dividends, thus providing our investors with an attractive yet conservative yield.

Our Growth Strategy

Our strategy is to grow our Distributions by partnering with more private companies that have a track record of high levels of free cash flow and consistent profitability. We typically target companies that are family controlled, are typically a poor fit for traditional private equity, and that have owners that intend to use the capital we provide for growth, generational transfers or partial liquidity. Our focus is primarily on private companies in Canada and the US.

We intend to partner with additional proven performers that have attractive operating histories to add to our revenue base. We look for private companies that have shown a history of growth and low cyclicality as well as sustainable free cash flow and strong future opportunities. We do not invest in turn-around situations or companies with a declining asset base. We also look for companies with experienced management teams who have the intention to continue managing the business after partnering with Alaris with no change of ownership following the transaction. This ensures such companies are still run by the capable management and ownership teams that made them such a solid partnership opportunity for Alaris. Companies with low leverage and capital expenditure requirements are also key criterion for us in evaluating new opportunities.

Private Company Partners

Fact Sheets

Quetico |

"The specialized wholesale and inventory management services Quetico provides, as well as the robust customers it provides these services to, have made it a recession resistant business. This has been proven by consistency and profitability Quetico has displayed over the past 17 years, and especially since 2007. These were the major factors that drove our decision to partner with them.".

Steve King, Chief Executive Officer

Alaris Royalty Corp.

QUETICO Founded in 1994, Quetico has created a highly specialized and proprietary wholesale and inventory management niche within the logistics industry. Quetico is based in Chino, California. Quetico provides specialized wholesale, inventory management and third party logistics services of consumer products to big box retailers and brand name manufacturers in North America and abroad. Quetico operates approximately 400,000 square feet of warehouse space and employs approximately 400 people at its peak output. Customers of Quetico are primarily multi-national, financially stable, industry leading companies.

ASSET CLASS: Inventory Management

TOTAL ALARIS CAPITAL INJECTED: $ 26,900,000 USD

PARTNERSHIP HIGHLIGHTS:

- Quetico has created service offerings that are unique to the industry along with a "one stop shop" approach to servicing their customers, allowing the company to gain a large share of the traditional service market.
- Quetico's founding partners have over 50 years of combined experience in their industry and have long-standing relationships with the complete management team in various multi-national big box retailers and brands.
- Customers of Quetico are multi-national, financially stable, industry leading companies.
- Current first year distribution to Alaris is $4.25M with the annual reset based on the percent change in gross profit over the immediately previous fiscal year's audited gross profit. Alaris' royalty from Quetico has a ceiling of +10% and a floor of -20% per year.
- Quetico's fiscal year end is December 31.

QUETICO EXECUTIVE TEAM:

Tom Fenchel,
Co-Chief Executive Officer

Nick Agakanian
Co-Chief Executive Officer

Alan Mazursky
Chief Financial Officer

Head Office:
Chino, CA
www.queticollc.com

Killick Aerospace |

"We are very excited at the prospect of partnering with an impressive management team and for the opportunity to fund a world class company. Killick offers all of the criteria that we look for in a new partner: steady historic earnings from a required service; low levels of term debt and capital expenditures; a large buffer of free cash flow; and opportunities for future growth".

Steve King, Chief Executive Officer

Alaris Royalty Corp.

KILLICK together with its various subsidiaries, is a privately owned participant in the global aircraft maintenance, repair and overhaul industry. Headquartered in Carrollton, Texas, Killick specializes in the sale, distribution, trade and service of aircraft engines and spare parts. Killick operates in Asia, Europe and the United States, where it employs a combined 130 people. Established in 2006, its operating subsidiaries Prime Turbines, Kansas Aviation and CT Aerospace have been operating since 1984, 1992, and 2002, respectively. The product and service offerings of Killick's subsidiaries can be segmented into two markets: (i) Maintenance, repair and overhaul ("MRO") of small aircraft engines and engine accessories, and (ii) the distribution of commercial jet engines, frame parts and engine accessories.

ASSET CLASS: Aircraft Maintenance, Repair, Overhaul and Inventory Management

TOTAL ALARIS CAPITAL INJECTED: $ 27,250,000

PARTNERSHIP HIGHLIGHTS:

- Killick's strategy focuses on segments of the MRO market that feature stable demand profiles and attractive long term economic prospects largely driven by industry requirements and government regulations.
- Owned, managed and staffed by industry veterans, Killick is capitalizing on the fragmentation, undercapitalization and inefficiencies that have historically been characteristics of specific segments within the MRO market.
- Current first year royalty to Alaris is $4.30 million with the annual reset based on the change in gross revenue over the immediately previous fiscal year's audited gross revenue. Alaris' royalty from Killick has a collar of +/- 4% per year.
- Killick's fiscal year end is December 31.

KILLICK EXECUTIVE TEAM:

Russell Starr

President & Chief Executive Officer

Bruce Weaver

Chief Financial Officer

Head Office:

Carrollton, TX

www.ctaerospace.com

www.primeturbines.com

www.kansasaviation.com

Solowave Design Inc. |

"Solowave is a world class manufacturer of a product that households will continue to use for many generations. It has become an exclusive supplier to some of the world's largest retailers through their unparalleled commitment to quality, innovation and customer service. Alaris is proud to be associated with such an outstanding enterprise."

Steve King, Chief Executive Officer

Alaris Royalty Corp.

SOLOWAVE is a manufacturer of residential, ready-to-assemble wooden play centers. Solowave's products are sold under the brand names Big Backyard and Cedar Summit Premium Playsets. Based in Ontario, Solowave has operations in the United States and Asia, and sells globally in North America, Europe, Australia and the UAE. Solowave was founded in 2004 and employs approximately 135 employees worldwide, and up to 260 during peak season. Through new product development, quality and innovation, Solowave has established itself as the leading manufacturer of wooden play centers in the United States.

ASSET CLASS: Sporting Goods, Children's Active Play

TOTAL ALARIS CAPITAL INJECTED: $32,500,000

PARTNERSHIP HIGHLIGHTS:

- Since inception, the company has tripled in size over the past five years and has identified significant growth opportunities through international sales expansion and entry into new markets.
- Solowave sells its play sets to major retail dealers such as Toys R Us, Costco, Target, Rona, and Canadian Tire. Solowave is currently the exclusive supplier of wooden play centers for Toys R Us United States and Toys R Us Canada as well as for Costco U.S., Canada, U.K. and Mexico.
- Focused expansion into new markets and channels, and growth from the acquisition of new customers will result in a reduction of the existing customer concentration.
- Current annual royalty payment to Alaris is $4.96 million. The annual royalty payment reset is based on change in "same customer net sales" over the immediate previous fiscal years audited sales revenue. This metric has an annual collar of +/- 6%.
- Fiscal year end is October 31st.

SOLOWAVE EXECUTIVE TEAM

Richard Boyer

Chief Executive Officer

& Founder

Mat Wolf

Vice President of Finance

Head Office:

Mount Forest, Ontario

www.bigbackyard.com

www.cedarsummitplay.com

KMH Cardiology |

"Our third partner in the healthcare field, KMH is one of Canada's leaders in the cardiology diagnostics field. We hope to continue to fund accretive acquisitions for KMH as they grow their footprint throughout North America and even overseas. Medical diagnostics is a growing industry but with very few private management teams with the skills or funding to expand aggressively. We are very pleased to partner with a company with such huge potential in front of it".

Steve King, Chief Executive Officer

Alaris Royalty Corp.

KMH is a Canadian-based privately held healthcare provider with operations in Canada and the United States. Since inception in 1988, KMH has administered more than 600,000 cardiology, nuclear cardiology and nuclear medicine diagnostic tests and more than 40,000 MRI scans. Based on information provided by KMH and Management's own review, KMH is the largest provider of nuclear cardiology services in North America and, out of approximately 900, the third largest independent health facility in Canada. The partnership is comprised of 12 clinics: 8 in Canada and 4 in the United States. KMH's services include nuclear medicine, cardiology and magnetic resonance imaging diagnostic services.

ASSET CLASS: Healthcare Services

TOTAL ALARIS CAPITAL INJECTED: $ 27,400,000 (2 tranches)

PARTNERSHIP HIGHLIGHTS:

- KMH plans to continue to grow both by acquisition, evaluating options in Canada, the United States and overseas, and by the purchase of new equipment to expand services offered.
- KMH has a significant and growing market demand; cardiovascular disease is recognized as Canada's leading cause of morbidity and mortality annually accounting for more than 50% of deaths and 21% of total healthcare costs. The prevalence of the disease is anticipated to grow by 35% over the next ten years.
- As the baby boomer generations age, there will be an increased demand for diagnostic services and quality health care.
- Current annual royalty to Alaris $4.19M.
- KMH's fiscal year end is November 30th.

KMH EXECUTIVE TEAM:

Neena Kanwar

President and Chief Executive Officer

Vijay Kanwar

President and Chief Financial Officer

Head Office:

Mississauga, Ontario

www.kmhlabs.com

LMS |

"LMS felt the full effects of the global financial crisis we all experienced. It has made it through those events with a strong balance sheet and an even stronger platform for success. LMS has a great future ahead of it as it is the supplier of choice in Western Canadian infrastructure and high rise development projects. We are looking forward to the future with LMS as our partner".

Steve King, Chief Executive Officer

Alaris Royalty Corp.

LMS is a Western Canadian based concrete reinforcing steel contractor and fabricator. LMS is well established as a leading player in the markets in which it operates across Western Canada. LMS fabricates and installs rebar for construction projects primarily in British Columbia, Alberta, Saskatchewan, and Manitoba. LMS projects include infrastructure, commercial and residential rebar installation and supply. Its customers are typically general contractors or developers.

ASSET CLASS: Industrials and Materials (Rebar Installation and Supply)

TOTAL ALARIS CAPITAL INJECTED: $51,000,000

PARTNERSHIP HIGHLIGHTS:

- LMS works on some 70 projects at any given time, installing its own rebar for the most part but in some cases serving strictly as a trusted supplier.
- LMS ensures a steady supply of steel for its fabricating yard and, by extension, its customers. This is achieved thanks to strong ties with local and offshore steel sources.
- As an installer and supplier, LMS has the advantage of having very low fixed costs and fixed assets, which allows the company to be profitable during a downturn as it can adjust its labour force to match the activity level.
- LMS projects include infrastructure, commercial and residential.
- Current royalty payment to Alaris is $2.0M.
- Fiscal year end is September 30th.

LMS EXECUTIVE TEAM:

Ron McNeil
Co-Chair & Founder

Ivan Harmatny
Co-Chair & Founder

Norm Streu
Chief Operating Officer

Michele Berg
Chief Financial Officer

Greg Hubbard
Vice President Operations

Office and Yard Locations:
Surrey, British Columbia
Calgary, Alberta
www.lmsgroup.ca

End of the Roll |

"End of the Roll is a perfect example of how Alaris' capital can be used for generational transfer without giving up control. Alaris provided capital to End of the Roll founders so that they could slowly exit the company while training their sons to take over the business upon their retirement. This company is exactly what we look for in new partnerships".

Steve King, Chief Executive Officer
Alaris Royalty Corp.

END OF THE ROLL is Canada's largest dedicated flooring retailer. EOR 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. The discount renovation market is constantly growing as the trend towards home renovations increases. EOR experienced stable sales during the recession because it does not supply new home builders with flooring.

ASSET CLASS: Consumer Discretionary (Discount Floor Covering)

TOTAL ALARIS CAPITAL INJECTED: $ 7,200,000

PARTNERSHIP HIGHLIGHTS:

- End of the Roll was incorporated in 1990 and began offering franchise locations in 1994.
- Currently, End of the Roll collects franchise royalties from over 55 franchisees nationwide.
- End of the Roll is the only dedicated flooring franchise system in Canada.
- 2011 same store sales declined by 13% due to the elimination of the home renovation tax credit. 2010 same store sales were +1%.
- Prior to 2009, End of the Roll had posted 17 straight years of same store sales growth.
- Current royalty payment to Alaris is $1.18M.
- Fiscal year end for End of the Roll is April 30th.

END OF THE ROLL EXECUTIVE TEAM:

Urs Steinmann
President

Duane Ortynski
Senior Vice President

Gary Steinmann
National Director of Franchise Development

Cory Ortynski
National Director of Computer Support Systems

Ted Cartier
Chief Financial Officer

Head Office:
Surrey, British Columbia
www.endoftheroll.ca

LifeMark Health |

"LifeMark has proven to be an exceptional partner to Alaris over the past 7 years and will continue to provide Alaris shareholders with consistent, stable returns. The LifeMark partnership is a perfect example of how Alaris is the best source of capital for management and owner's of a growing private business".

Steve King, Chief Executive Officer
Alaris Royalty Corp.

LIFEMARK is one of Canada's largest private health care providers with over 120 clinics across Canada. Alaris initially partnered with LifeMark in 2005 and has since provided capital to the company 5 additional times. LifeMark provides rehabilitation and physiotherapy services to private users, worker's compensation and safety boards, private insurance companies and Government Agencies. Since its inception in 1979, LifeMark has posted stable results regardless of the economic conditions or government insurance funding levels. In June of 2011, Centric Health Corporation ("Centric") acquired LifeMark in a transaction that resulted in Alaris receiving $65 million in cash in exchange for a portion of our interest in LifeMark and all of our interest in MEDIchair. LifeMark is now a division of Centric.

ASSET CLASS: Healthcare Services

TOTAL ALARIS CAPITAL INJECTED: $ 67,500,000 (7 tranches)

PARTNERSHIP HIGHLIGHTS:

- LifeMark plans to continue to grow by acquisition under Centric as it works towards consolidating this fragmented industry.
- LifeMark has grown from 30 clinics to over 120 clinics with over 1600 dedicated healthcare staff, consultants and medical doctors across Canada (except Quebec). The majority of their clinics are free-standing outpatient physiotherapy clinics.
- LifeMark's revenue base is very diverse geographically as well as by customer. Alaris' monthly payment is now also guaranteed by the much larger revenue base of Centric.
- LifeMark's royalty to Alaris has grown organically since 2005 with the smallest percentage increase being -1% and the largest increase being 5%. LifeMark's current royalty payment is $6.75 million and will automatically increase by 4% per year starting July 1, 2012.
- -Centric's fiscal year end is December 31st.

LIFEMARK EXECUTIVE TEAM:

Craig Gattinger
Chief Executive Officer

Ron Lowe
President

Peter Walkey
Chief Financial Officer

Head Office:
Calgary, Alberta
www.lifemark.ca

Consolidated Financial Statements of Alaris Royalty Corp.

Audited statements for the years ended

December 31, 2011 and 2010

Chartered Accountants
2700 205 – 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Telefax (403) 691-8008
Internet www.kpmg.ca

To the Shareholders of Alaris Royalty Corp.

We have audited the accompanying consolidated financial statements of Alaris Royalty Corp., which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, 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 consolidated 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.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alaris Royalty Corp. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

KPMG LLP

Calgary, Canada

March 14, 2012

Alaris Royalty Corp.

Consolidated statement of financial position

	Note	December 31 2011	December 31 2010	January 1 2010
Assets				
Cash and cash equivalents		$3,888,465	$1,816,868	$ 3,826,000
Prepayments		119,508	343,184	103,472
Trade and other receivables		3,443,679	688,514	2,470
Current Assets		7,451,652	2,848,566	3,931,942
Equipment	7	66,743	69,671	74,477
Intangible assets	5	6,661,138	12,896,916	13,070,150
Preferred LP Units	5	207,408,290	182,907,000	122,286,000
Investment tax credit receivable	6	10,922,393	10,922,393	11,030,007
Deferred income taxes	6	13,967,984	18,158,192	22,454,167
Non-current assets		239,026,548	224,954,172	168,914,801
Total Assets		$246,478,200	$227,802,738	$172,846,743
Liabilities				
Accounts payable and accrued liabilities		$1,546,705	$1,421,992	$939,085
Dividends payable		1,850,145	1,396,262	802,604
Income taxes payable		67,590	-	-
Loans and borrowings	9,11	-	-	9,350,000
Current Liabilities		3,464,440	2,818,254	11,091,689
Loans and borrowings	9	6,500,000	29,200,000	19,700,000
Non-current liabilities		6,500,000	29,200,000	19,700,000
Total Liabilities		9,964,440	32,018,254	30,791,689
Equity				
Share capital	8	200,822,160	157,402,328	111,663,148
Warrants	8	-	405,306	845,000
Equity reserve		4,626,500	3,174,831	1,869,901
Fair value reserve		2,292,939	22,350,157	9,766,188
Translation reserve		(124,947)	-	-
Retained Earnings		28,897,108	12,451,862	17,910,817
Total Equity		236,513,760	195,784,484	142,055,054
Total Liabilities and Equity		$246,478,200	$227,802,738	$172,486,743

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

(signed) *"Mary Ritchie"* Director

Alaris Royalty Corp.

Consolidated statement of comprehensive income

	Note	Years ended Dec 31	
		2011	2010
Revenues			
Royalties and distributions	5	$21,497,960	$16,657,034
Interest and other		68,408	2,190
Gain on reduction of partner interests	5	23,815,973	-
Gain on sale of intangible assets	5	3,891,560	-
Total Revenue		49,273,901	16,659,224
Salaries and benefits	11	1,875,508	1,060,915
Corporate and office		859,727	626,990
Legal and accounting fees		556,621	443,262
Non-cash stock-based compensation	10,11	1,978,727	1,817,981
Depreciation and amortization		143,244	190,028
Subtotal		5,413,827	4,139,176
Earnings from operations		43,860,074	12,520,048
Finance cost		1,235,348	1,707,713
Unrealized foreign exchange loss		183,060	-
Earnings before taxes		42,441,666	10,812,335
Deferred income tax expense	6	7,661,200	3,411,119
Current income tax expense	6	68,022	-
Earnings		34,712,444	$7,401,216
Other comprehensive income			
Net change in fair value of Preferred LP units	5	1,093,437	14,381,679
Tax impact of change in fair value		(136,679)	(1,797,710)
Realized gain on reduction of partnership interest	5	(24,015,973)	-
Tax impact of realized gain		3,001,997	-
Foreign currency translation differences		(124,947)	-
Other comprehensive income for the period, net of income tax		(20,182,165)	12,583,969
Total comprehensive income for the period		$ 14,530,279	$ 19,985,185
Earnings per share			
Basic earnings per share		$2.04	$0.56
Fully diluted earnings per share		$1.97	$0.54
Weighted average shares outstanding			
Basic		17,036,346	13,104,165
Fully Diluted		17,595,740	13,651,879

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2010

	Notes	Share Capital	Warrants	Equity Reserve	Fair Value Reserve	Retained Earnings	Total Equity
Balance at January 1, 2010		$111,663,148	$845,000	$1,869,901	$9,766,188	$17,910,817	$142,055,054
Total comprehensive income for the year							
Earnings for the period		-	-	-	-	7,401,216	7,401,216
Other comprehensive income		-	-	-	-	-	-
Net change in fair value of available-for-sale financial assets	5	-	-	-	14,381,679	-	14,381,679
Tax impact of change in fair value					(1,797,710)		(1,797,710)
Total other comprehensive income		-	-	-	12,583,969	-	19,985,185
Total comprehensive income for the year		$-	$-	$-	$12,583,969	$7,401,216	$19,985,185
Transactions with shareholders of the Company, recognized directly in equity							
Non-cash stock based compensation	10	$-	$-	$1,679,930	$-	$-	$1,679,930
Warrants exercised in the period	8	4,488,000	-	-	-	-	4,488,000
Fair value of warrants exercised in the period	8	439,694	(439,694)	-	-	-	-
Dividends to shareholders	8	-	-	-	-	(12,628,487)	(12,628,487)
Payments in lieu of dividends on RSUs	10	-	-	-	-	(226,105)	(226,105)
Shares issued in lieu of dividends on RSUs	10	138,050	-	-	-	-	138,500
Shares issued after director RSU vesting		375,000	-	(375,000)	-	-	-
Shares issued in the period		42,568,500	-	-	-	-	42,568,500
Share issue costs, net of tax		(2,270,064)	-	-	-	(5,579)	(2,275,643)
Total transactions with Shareholders of the Company		45,739,180	(439,694)	1,304,930	-	(12,860,171)	33,744,245
Balance at December 31, 2010		$157,402,328	$405,306	$3,174,831	$22,350,157	$12,451,862	$195,784,484

Alaris Royalty Corp.

Consolidated statement of changes in equity

For the year ended December 31, 2011

	Notes	Share Capital	Warrants	Equity Reserve	Fair Value Reserve	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2011		$157,402,328	$405,306	$3,174,831	$22,350,157	-	$12,451,862	$195,784,484
Total comprehensive income for the year								
Earnings for the period		-	-	-	-	-	34,712,444	34,712,444
Other comprehensive income								
Net change in fair value of available-for-sale financial assets	5	-	-	-	1,093,437	-	-	1,093,437
Tax impact of change in fair value					(136,679)	-		(136,679)
Realized gain on reduction of partnership interest		-	-	-	(24,015,973)	-	-	(24,015,973)
Tax impact of realized gain		-	-	-	3,001,997	-	-	3,001,997
Foreign currency translation differences		-	-	-	-	(124,947)	-	(124,947)
Total other comprehensive income		-	-	-	(20,057,218)	(124,947)	-	(20,182,165)
Total comprehensive income for the year		$-	$-	$-	$(20,057,218)	$(124,947)	$34,712,444	$14,530,279
Transactions with shareholders of the Company, recognized directly in equity								
Contributions by and distributions to shareholders of the Company								
Non-cash stock based compensation	10	$-	$-	$1,826,178	$-	$-	$-	$1,826,178
Warrants exercised in the period	8	3,988,875	-	-	-	-	-	3,988,875
Fair value of warrants exercised in the period	8	390,794	(390,794)	-	-	-	-	-
Fair value of warrants expired in the period		-	(14,512)	14,512	-	-	-	-
Dividends to shareholders	8	-	-	-	-	-	(18,014,242)	(18,014,242)
Options exercised in the period	8	126,696	-	(14,021)	-	-	-	112,675
Payments in lieu of dividends on RSUs	10	-	-	-	-	-	(248,653)	(248,653)
Shares issued after director RSU vesting		375,000	-	(375,000)	-	-	-	-
Shares issued in the period		40,053,000	-	-	-	-	-	40,053,000
Share issue costs, net of tax		(1,667,083)	-	-	-	-	(4,303)	(1,671,386)
Shares issued in lieu of dividends on RSUs	10	152,550	-	-	-	-	-	152,550
Total transactions with Shareholders of the Company		43,419,832	(405,306)	1,451,669	-	-	(18,267,198)	26,198,997
Balance at December 31, 2011		$200,822,160	$ -	$4,626,500	$2,292,939	$(124,947)	$28,897,018	$236,513,760

Alaris Royalty Corp.

Consolidated statement of cash flows

For the years ended December 31

	Note	2011	2010
Cash flows from operating activities			
Earnings from the year		$34,712,444	$7,401,216
Adjustments for:			
Finance costs		1,235,348	1,707,713
Deferred income taxes	6	7,661,200	3,411,119
Depreciation and amortization	7	143,244	190,028
Gain on intangible asset sale and reduction of partnership interest		(27,707,533)	-
Gain on foreign exchange forward contract		(21,864)	-
Unrealized foreign exchange loss		183,060	-
Non-cash stock based compensation	10	1,978,727	1,817,981
		18,184,626	14,528,057
Change in:			
-trade and other receivables		(2,755,165)	(686,044)
-prepayments		223,676	(239,712)
-trade and other payables		192,303	482,907
Cash generated from operating activities		15,845,440	14,085,208
Finance costs		(1,235,348)	(1,707,713)
Net cash from operating activities		14,610,092	12,377,495
Cash flows from investing activities			
Acquisition of equipment		(12,979)	(11,989)
Acquisition of Preferred LP Units		(78,948,286)	(46,239,320)
Proceeds from reduction in Preferred LP Units and Intangible asset sale		65,000,000	-
Net cash used in investing activities		$(13,961,265)	$(46,251,309)
Cash flows from financing activities			
New share capital, net of share issue costs	8	37,830,223	39,487,617
Proceeds from exercise of warrants	8	3,988,875	4,488,000
Proceeds from exercise of options	8	112,675	-
Repayment of debt	9	(66,700,000)	(9,350,000)
Proceeds from debt	9	44,000,000	9,500,000
Dividends paid	8	(17,560,350)	(12,034,829)
Payments in lieu of dividends on RSUs	10	(248,653)	(226,105)
Net cash used in financing activities		$1,422,770	$31,864,683
Net increase in cash and cash equivalents		2,071,597	(2,009,132)
Cash and cash equivalents, Beginning of year		1,816,868	3,826,000
Cash and cash equivalents, End of year		$3,888,465	$1,816,868

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2011 and 2010

Reporting entity:

Alaris is a company domiciled in Calgary, Alberta, Canada. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprises the Company and its subsidiaries (together referred to as the "Corporation"). The Corporation's Canadian operations are conducted through a partnership. The Corporation's American operations are conducted through a Delaware Corporation formed on October 21, 2011. 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, or long-term license and royalty arrangements. The Corporation also has a wholly-owned subsidiary in The Netherlands.

2. Statement of compliance:

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Corporation is provided in note 13. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of the transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRS.

These consolidated financial statements were approved by the Board of Directors on March 14, 2012.

(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 (Preferred LP units and Preferred LLC units) are measured at fair value with changes in fair value recorded in other comprehensive income
- 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.

(d) Use of estimates

The preparation of the consolidated financial statements in conformity with IFRS 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.

Provisions for 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

2. Statement of compliance (continued)

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.

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

Key assumptions 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. See note 5 for details in respect of the calculation.

Utilization of tax losses

Management makes estimates on future taxable income that generates the calculations for the deferred income tax expense, assets and liabilities.

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS, 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.

(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.

3. Significant accounting policies (continued):

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.

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.

Available-for-sale financial assets

Available-for-sale financial assets 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 and limited liability corporations 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.

(ii) Derivative financial instruments

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investment in Quetico, the Corporation's lone foreign investment. The Corporation matched 100% of the 2012 scheduled distributions to the Canadian parent and 90% of the expected 2013 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

(d) Share capital

Common shares

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.

3. Significant accounting policies (continued):

(f) Intangible assets

(i) Other intangible assets

Other intangible assets that are acquired by the Corporation have finite useful lives are 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.

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.

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 debt 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, losses on disposal of available-for-sale financial assets, and fair value losses on financial assets at fair value through profit or loss. 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 tax 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.

3. Significant accounting policies (continued):

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

(k) Earnings per Share

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

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

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 group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk Management Framework

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

4. Financial risk management (continued):

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, through its training and management standards and procedures, 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 customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Corporation's investments. 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 the Corporation's customer base, including the default risk of the industry and country in which customers operate, as these factors may have an influence on credit risk. Approximately 43 percent (year ended December 31, 2010 - 68 percent) of the Corporation's revenue in the year ended December 31, 2011 is attributable to one Private Company Partner.

Other price risk is the risk that future cash flows associated with portfolio investments will fluctuate. 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. 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 provide that payments are receivable monthly no later than the last day of the month.

4. Financial risk management (continued):

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 $3,888,465 at December 31, 2011 (December 31, 2010 - $1,816,868), which represents its maximum credit exposure on these assets.

The carrying amount of investments, accounts receivable and cash and cash equivalents represents the maximum credit exposure. The Corporation does not have an allowance for doubtful accounts as at December 31, 2011 and did not provide for any doubtful accounts nor was it required to write-off any receivables or investments during the year ended December 31, 2011. Included in the accounts receivable total was a $3.2 million promissory note from KMH that was repaid in full on February 13, 2012. The remaining items in accounts receivable were current at December 31, 2011.

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 $30.1 million, 364 day revolving credit facility, and has $6.5 million balance drawn at December 31, 2011 ($29.2 million at December 31, 2010). The Corporation has the following financial instruments that mature as follows:

	Total	0-6 months	6 mo-1 yr	1-2 years	3-4 years
Accounts payable and accrued liabilities	$ 1,546,705	$ 1,546,705	$ -	$ -	$ -
Dividends payable	1,850,145	1,850,145	-	-	-
Income taxes payable	67,590	67,590	-	-	-
Total	$ 3,464,440	$ 3,464,440	$ -	$ -	$ -

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.

4. Financial risk management (continued):

Foreign currency exchange rate risk and commodity price risk

As a result of the Quetico investment in the United States, the Corporation has some exposure to foreign currency exchange rate risk. The Corporation purchased forward exchange rate contracts matching the expected distributions in US dollars throughout 2012 and also for 90% of the expected distributions in 2013. The Corporation intends to purchase additional contracts each quarter so that two years of distributions would be hedged against movement in the US Dollar compared to the Canadian dollar. The Corporation had no commodity price risk for the year ended December 31, 2011.

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, 2011, if interest rates had been 1% lower with all other variables held constant, net income for the year would have been approximately $180,000 higher, due to lower interest expense. An equal and opposite impact would have occurred to net income had interest rates been 1% higher.

The Corporation had no interest rate swap or financial contracts in place as at or during the year ended December 31, 2011.

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 364 day revolving credit 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 1.7:1 (0.15:1 at December 31, 2011). EBITDA is defined as net income before interest expense, income taxes, depreciation and amortization and non-cash stock-based compensation expenses. Additionally, a minimum tangible net worth requirement of $190.3 million is in place ($236.5 million at December 31, 2011). Tangible net worth is defined as subordinated debt plus shareholders equity. The Corporation was in compliance with all debt covenants at December 31, 2011. In order to acquire more distributions and royalties, the Corporation can access its credit facility and above that needs to access public equity markets to fund the acquisitions and manage the business within the bank covenants. There were no changes in the Corporation's approach to capital management during the year ended December 31, 2011.

4. Financial risk management (continued):

Fair Value of Financial Instruments

The Corporation's financial instruments as at December 31, 2011 and December 31, 2010 include cash and cash equivalents, accounts receivable, investments, accounts payable and accrued liabilities, and bank indebtedness. The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and approximate their carrying amounts due to their short-terms to maturity. Bank indebtedness bears interest at a floating market rate and accordingly the fair market value approximates the carrying value. The fair values of the available for sale investments are estimated using an approach described in note 5.

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, 2011 and 2010, and January 1, 2010, are measured at fair value on a recurring basis using level 1 or level 2 inputs. The Corporation has no level 3 items and during the years ended December 31, 2011 and 2010, there were no transfers between level 1 or level 2 classified assets and liabilities.

December 31, 2011	**Level 1**	**Level 2**	**Total**
Cash and cash equivalents	$ 3,888,465	$ -	$ 3,888,465
Foreign exchange derivatives	-	21,864	21,864
Preferred LP units	-	207,408,290	207,408,290
	$ 3,896,652	$ 207,430,154	$ 211,318,619
December 31, 2010			
Cash and cash equivalents	$ 1,816,868	$ -	$ 1,816,868
Preferred LP units	-	182,907,000	182,907,000
	$ 1,816,868	$ 182,907,000	$ 184,723,868
January 1, 2010			
Cash and cash equivalents	$ 3,826,000	$ -	$ 3,826,000
Preferred LP units	-	122,286,000	122,286,000
	$ 3,826,000	$ 122,286,000	$ 126,112,000

5. Investments

Available for Sale Financial Assets:

December 31, 2011	Acquisition Cost	Capitalized Cost	Net Cost	Fair Value
LifeMark Health	$ 36,450,000	$ 499,894	$ 36,949,894	$ 65,500,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	25,300,000
Solowave	32,500,000	511,253	33,011,253	33,050,000
KMH	27,400,000	427,995	27,827,995	27,900,000
Killick	27,250,000	257,544	27,507,544	27,500,000
Quetico	27,357,300	800,990	28,158,290	28,158,290
	$ 201,957,300	$ 2,830,956	$ 204,788,256	$ 207,408,290
December 31, 2010				
LifeMark Health	$ 67,500,000	$ 291,362	$ 67,791,362	$ 120,000,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	24,667,000
Solowave	32,500,000	494,787	32,994,787	32,995,000
KMH	5,000,000	244,534	5,244,534	5,245,000
	$ 156,000,000	$ 1,363,963	$ 157,363,963	$ 182,907,000
January 1, 2010				
LifeMark Health	$ 59,500,000	$ 291,362	$ 59,791,362	$ 99,828,000
Lower Mainland Steel	51,000,000	333,280	51,333,280	22,458,000
	$ 110,500,000	$ 624,642	$ 111,124,642	$ 122,286,000

Assumptions used in fair value calculations:

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

(a) A going concern value was calculated by calculating the discounted cash flow of the future expected distributions. Key assumptions used include the discount rate used in the calculation. 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.

(b) A redemption or retraction value was calculated using the formula specified in each of the Partnership agreements alongside an assessment of the likelihood of a redemption of the Preferred Units.

(c) A liquidation value was 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.

From this analysis, management of the Corporation determined the fair value of the Preferred LP Units for each individual Partner. Below is a summary of the fair value adjustments in 2011 and 2010.

5. Investments (continued):

2011	Opening Fair Value	Additions	Disposals	Fair Value Adjustment	Closing Fair Value
LifeMark Health	$ 120,000,000	$ 342,558	$(55,200,000)	$ 357,442	$ 65,500,000
LMS	24,667,000	-	-	633,000	25,300,000
Solowave	32,995,000	16,466	-	72,005	33,050,000
KMH	5,245,000	22,582,995	-	38,534	27,900,000
Killick	-	27,507,544	-	(7,544)	27,500,000
Quetico	-	28,158,290	-	-	28,158,290
	$ 182,907,000	$ 78,607,853	$(55,200,000)	$ 1,093,437	$ 207,408,290
2010					
LifeMark Health	99,828,000	8,000,000	-	$ 12,172,000	$ 120,000,000
LMS	22,458,000	-	-	2,209,000	24,667,000
Solowave	-	32,994,787	-	466	32,995,000
KMH	-	5,244,534	-	213	5,245,000
	$ 122,286,000	$ 46,239,321	-	$ 14,381,679	$ 182,907,000

The Corporation holds intangible assets as follows:

Intangible Assets:

December 31, 2011	Acquisition Cost	Capitalized Cost	Accumulated Amortization	Net Cost
End of the Roll	$ 7,200,000	$ 74,920	$ (613,782)	$ 6,661,138
	$ 7,200,000	74,920	$ (613,782)	$ 6,661,138
December 31, 2010				
End of the Roll	$ 7,200,000	$ 74,920	$ (522,845)	$ 6,752,075
MEDIchair	6,500,000	83,758	(438,917)	6,144,841
	$ 13,700,000	$ 158,678	$ (961,762)	$ 12,896,916

Royalties and distributions:

	2011	2010
LifeMark Health	$ 9,224,776	$ 11,330,637
Solowave	5,000,000	208,333
Killick	2,080,645	-
LMS	1,678,949	1,998,842
KMH	1,280,449	563,890
End of the Roll	1,249,309	1,354,892
MEDIchair	530,968	1,200,440
Quetico	452,864	-
	$ 21,497,960	$ 16,657,034

5. Investments (continued):

I – Preferred LP Units

(a) Investment in LifeMark Health Limited Partnership (“LifeMark Health”):

At the beginning of 2011, the Corporation held 900,000 class A preferred partnership units ("LifeMark A Units") and 5,850,000 class B preferred partnership units ("LifeMark B Units") in LifeMark Health (the "LifeMark Investment"). On June 9, 2011, the Corporation entered into a plan of arrangement that resulted in a return of capital, the elimination of the Class A and B units, and a reduction of the annual distributions to $6.75 million for the twelve months following the close of the transaction. Going forward, Alaris holds 6,750,000 Preferred Units and will receive an annual preferred distribution, in priority to distributions on LifeMark Health’s other partnership units, from LifeMark Health of $6.75 million in the twelve months following close. This represents approximately 50% of the pre-Transaction expected 2011 distribution to Alaris from the LifeMark Group. The post-Transaction annual Distribution has a guaranteed increase of 4% per year thereafter and distributions are receivable monthly. Prior to the return of capital, the fair value of the LifeMark Investment was $120 million. The current period gain of $23.8 million is the difference between the $55 million in proceeds and 46% of the book value of the original investment.

The LifeMark Group became a subsidiary of Centric Health Corporation (“Centric”), who acquired all of the issued and outstanding residual units of LifeMark Health and all of the intellectual property of Life Mark Health and MEDIchair, pursuant to the Transaction. The Transaction was completed by way of a plan of arrangement under the *Business Corporations Act* (Alberta). Alaris and Centric are the only limited partners in LifeMark Health.

Centric has the option at any time after June 9, 2013 to repurchase all (but not less than all) of the LifeMark Preferred Units for $65.5 million. Starting on June 9, 2013 the repurchase price will increase 4% per year.

(b) Investment in Lower Mainland Steel Limited Partnership (“LMS”):

The Corporation holds 510,000 Preferred partnership units ("LMS Units") in Lower Mainland Steel (the "LMS Investment"). 150,000 of the LMS Units were acquired on February 2, 2007 for an aggregate acquisition cost of $15 million. Alaris acquired another 360,000 LMS Units on December 21, 2007 for an aggregate acquisition cost of $36 million.

Pursuant to the LMS partnership agreement (the "LMS Partnership Agreement") dated April 2, 2007 and as amended December 21, 2007, the LMS Units entitle the Corporation to receive an annual preferred distribution (the “Preferred Distribution") in priority to distributions on LMS’ other partnership units. The base is in two distinct portions and is adjusted at two points (January 1st and April 1st) in each subsequent twelve month period to the Preferred Distribution for the prior twelve month period multiplied by the percentage increase or decrease in LMS’ Gross Profit (as defined in the LMS Partnership Agreement) for the most recently completed fiscal year. Distributions on the LMS Units are receivable monthly.

LMS has the option at any time after April 1, 2010 to repurchase all (but not less than all) of the LMS Units at a pre-negotiated premium to the original purchase price.

5. Investments (continued):

(c) Investment in KMH Limited Partnership ("KMH"):

The Corporation holds 274,000 Preferred partnership units ("KMH Units") in KMH Limited Partnership (the "KMH Investment"). 30,000 of the KMH Units were acquired on April 27, 2010 for an aggregate acquisition cost of $3 million, 20,000 KMH Units on May 18, 2010 for an aggregate acquisition cost of $2 million, and 224,000 KMH Units on December 30, 2011 for and aggregate acquisition cost of $22.4 million.

In October 2011, the Corporation invested $22.4 million into KMH by way of automatically convertible promissory notes (interest at 6.5% per annum) to help finance two acquisitions KMH was completing. The notes automatically converted into KMH Units on December 30, 2011 and the first year distributions on these new units will be $3.3 million. The Corporation also provided a $3.2 million demand note (interest at 8.5% per annum) to temporarily bridge mortgage financing on one of the acquisitions. That loan was repaid subsequent to December 31, 2011.

Pursuant to the KMH partnership agreement (the "KMH Partnership Agreement") dated April 27, 2010, the KMH Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on KMH's other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in KMH's Same Clinic Sales for the previous fiscal year. Distributions on the KMH Units are receivable monthly.

KMH has the option at any time after April 27, 2013 to repurchase all (but not less than all) of the KMH Units at a pre-negotiated premium to the original purchase price.

(d) Investment in Solowave Design, LP ("Solowave"):

The Corporation holds 3,250,000 Preferred partnership units ("Solowave Units") in Solowave Design Limited Partnership (the "Solowave Investment") acquired on December 16, 2010 for an aggregate acquisition cost of $32.5 million.

Pursuant to the Solowave partnership agreement (the "Solowave Partnership Agreement") dated December 16, 2010, the Solowave Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Solowave's other partnership units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Solowave's Same Customer Net Sales for the previous fiscal year. Distributions on the Solowave Units are receivable monthly.

Solowave has the option at any time after December 16, 2013 to repurchase all (but not less than all) of the Solowave Units at a pre-negotiated premium to the original purchase price.

(e) Investment in Killick Aerospace, LP ("Killick"):

The Corporation holds 2,725,000 Preferred partnership units ("Killick Units") in Killick Aerospace Limited Partnership (the "Killick Investment") acquired on July 6, 2011 for an aggregate acquisition cost of $27.25 million.

Pursuant to the Killick partnership agreement (the "Killick Partnership Agreement") dated July 6, 2011, the Killick Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Killick's other partnership units in an

5. Investments (continued):

amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Killick's Gross Revenue for the previous fiscal year, subject to a maximum increase or decrease of 4%. Distributions on the Killick Units are receivable monthly.

Killick has the option at any time after July 6, 2014 to repurchase all (but not less than all) of the Killick Units at a pre-negotiated premium to the original purchase price.

(f) Investment in Quetico, LLC ("Quetico"):

The Corporation, through its wholly-owned subsidiary Alaris USA Inc., holds 1,250 Class B units ("Quetico Units") in Quetico, LLC, an American corporation. The units were acquired on November 22, 2011 for an aggregate acquisition cost of $27.36 million (Canadian funds).

Pursuant to the Quetico LLC agreement (the "Quetico LLC Agreement") dated November 22, 2011, the Quetico Units entitle the Corporation to receive an annual preferred distribution (the "Preferred Distribution") in priority to distributions on Quetico's other units in an amount equal to the Preferred Distribution for the prior fiscal year multiplied by the percentage increase or decrease in Quetico's Gross Revenue for the previous fiscal year, subject to a maximum increase of 10% and a maximum decrease of 20%. Distributions on the Quetico Units are receivable monthly and are denominated in US dollars.

Quetico has the option at any time after November 22, 2014 to repurchase all (but not less than all) of the Quetico Units at a pre-negotiated premium to the original purchase price.

II – Intangible Assets

(a) Investment in End of the Roll Carpet and Vinyl ("End of the Roll"):

On May 1, 2005, the Corporation purchased certain intellectual property (the "ER IP") from End of the Roll for an aggregate purchase price of $7.2 million pursuant to an acquisition agreement (the "ER Acquisition Agreement") dated May 1, 2005 (the "End of the Roll Investment"). The ER IP includes End of the Roll's trademarks, trade names, website, and proprietary system for operating franchises. The ER IP was subsequently licensed to End of the Roll for a term (the "Term") of 80 years pursuant to a license agreement (the "ER License Agreement") dated May 1, 2005 in consideration of an annual royalty (the "Royalty"). The Royalty for the first 12-month period from May 1, 2005 to April 30, 2006 was $1.2 million (the "Initial Royalty"). The Royalty for each subsequent 12-month period during the Term is calculated by increasing or decreasing the Royalty for End of the Roll's fiscal year just ended by the percentage change in Same Store Sales (as defined in the ER License Agreement), being generally the total sales of all franchisee retail stores that have been open for at least two years, over the fiscal year immediately preceding the fiscal year just ended. Royalty payments are receivable monthly.

End of the Roll has the option at any time after May 1, 2010 to repurchase the ER IP (and terminate the Royalty) at a pre-negotiated premium to the original purchase price.

5. **Investments (continued):**

(b) Investment in MEDIchair Ltd. ("MEDIchair"):

On September 12, 2005, the Corporation purchased certain intellectual property (the "MEDIchair IP") from MEDIchair for an aggregate purchase price of $6.5 million (the "MEDIchair Investment") pursuant to an acquisition agreement (the "MEDIchair Acquisition Agreement") dated September 12, 2005. The MEDIchair IP was subsequently licensed to MEDIchair for a term (the "Term") of 80 years pursuant to a license agreement (the "MEDIchair License Agreement") in 2005 in consideration of an annual royalty (the "Royalty"). From September 12, 2005 through June 9, 2011, the Corporation collected $6.33 million in royalties from MEDIchair.

On June 9, 2011, the Corporation sold all of the MEDIchair intellectual property for $10,000,000, a 54% premium to its original cost. Carrying value prior to the sale included amortization of $475,318 and was $6.1 million resulting in a $3.8 million gain in the period.

6. **Income tax expense:**

Income tax expense is recognized based on management's best estimate of the weighted average annual income tax rate expected for the full financial year applied to the pre-tax income of the interim period. The Corporation's consolidated effective tax rate for the year ended December 31, 2011 was 26.5% (year ended December 31, 2010 – 28.0%).The change in effective tax rate is in line with the Canadian government's gradual reduction in the corporate income tax rate.

Income tax expense is calculated by using the combined federal and provincial 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:

	Year ended Dec 31	
	2011	**2010**
Earnings before income taxes	$ 42,441,666	$ 10,812,335
Combined federal and provincial statutory income tax rate	26.5%	28.0%
Expected income tax provision	$ 11,247,041	$ 3,027,454
Non-deductible expense	(571,013)	348,196
LP asset – fair value	(2,020,562)	-
Intangibles	(625,000)	-
Rate changes and other	(301,244)	(35,469)
	$ 7,729,222	$ 3,411,119

6. Income tax expense (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:

	Dec 31, 2011	Dec 31, 2010	Jan 1, 2010
Deferred income tax assets (liabilities):			
Non-capital losses and unclaimed scientific research and development expenses ("SRED")	$ 15,280,271	$ 24,124,260	$ 27,404,431
Equipment	94,504	90,527	93,943
Share issue costs	1,296,091	1,313,175	962,065
Intangible assets	(1,665,285)	(1,446,292)	(1,489,600)
Investment tax credits	(2,730,598)	(2,730,598)	(2,752,502)
Preferred partnership units	1,693,001	(3,192,880)	(1,400,170)
	$ 13,967,984	$ 18,158,192	$ 22,454,167

As at December 31, 2011, the Corporation has $2,989,609 in non-capital losses available to reduce income tax in future years that expire in 2025 or later.

As at December 31, 2011, the Corporation has unused federal investment tax credits which expire from time to time as follows:

2017	$ 133,652
2018	150,798
2019	1,623,342
2020	1,935,046
2021	1,295,097
2022	3,296,237
2023	1,840,597
2024	647,624
	$ 10,922,393

The Corporation has research and development expenditures not deducted at the end of the year, to be deducted over an indefinite period for an amount of $58,131,473.

Movement in deferred tax balances during the year	Deferred Income Taxes
Balance at January 1, 2010	$ 22,454,167
Recognized in profit and loss	(3,306,784)
Recognized directly in equity	808,519
Recognized in other comprehensive income	(1,797,710)
Balance at December 31, 2010	$ 18,158,192
Recognized in profit and loss	(7,561,243)
Recognized directly in equity	555,694
Recognized in other comprehensive income	2,865,317
Balance at December 31, 2011	$ 14,017,960

7. Equipment:

Equipment consists of leasehold improvements, furniture and fixtures, and computer equipment. The amounts are net of accumulated depreciation of $137,234 (December 31, 2010 - $121,327). During the year ended December 31, 2011, the Corporation acquired assets with a cost of $12,979.

8. Share capital:

Issued Common Shares	Number of Shares	Amount
Balance at December 31, 2009 (Voting shares)	10,799,098	$ 103,663,148
Issued in lieu of dividends on restricted share units	14,191	138,050
Issued upon RSUs vesting to Directors	31,250	375,000
Warrants exercised in the period	598,400	4,488,000
Fair value of warrants exercised in the period	-	439,694
Issued by short form prospectus in May 2010	1,840,000	16,560,000
Short form prospectus costs in May 2010	-	(1,239,548)
Income tax benefit of share issue costs	-	326,373
Issued by short form prospectus in Dec 2010	2,477,000	26,008,500
Short form prospectus costs in Dec 2010	-	(1,839,035)
Income tax benefit of share issue costs	-	476,567
Tax rate reconciliation of share issue costs	-	5,579
Balance at December 31, 2010 (Voting shares)	15,759,939	$ 149,402,328
Non-voting shares	666,665	8,000,000
Balance at December 31, 2010 (Voting, non-voting)	16,426,604	$ 157,402,328
Issued in lieu of dividends on restricted share units	10,331	152,550
Warrants exercised in the period	531,850	3,988,875
Fair value of warrants exercised in the period	-	390,794
Options exercised in the period	10,375	126,696
Non-voting shares converted to voting	(666,665)	-
Non-voting shares converted to voting	666,665	-
Issued by short form prospectus in Dec 2011	2,464,800	40,053,000
Short form prospectus costs in Dec 2011	-	(2,222,777)
Income tax benefit of share issue costs	-	555,694
Issued upon RSUs vesting to Directors	31,250	375,000
Balance at December 31, 2011 (Voting)	19,475,210	$ 200,822,160

Issued Warrants	Number of Warrants	Amount
Balance at December 31, 2009	1,150,000	$ 845,000
Exercised during 2010	(598,400)	(439,694)
Balance at December 31, 2010	551,600	$ 405,306
Exercised during 2011	(531,850)	(390,794)
Expired during 2011	(19,750)	(14,512)
Balance at December 31, 2011	-	$ -

8. Share capital (continued):

Issue of common shares

In the year ended December 31, 2011, the Corporation issued: 2,464,800 shares by way of short form prospectus; 531,850 shares as a result of the exercise of warrants; 10,375 shares as a result of the exercise of options; 10,331 shares under the Restricted Share Unit ("RSU") Plan; and 31,250 shares that vested to Directors under the RSU Plan. During the year ended December 31, 2011, at the Annual General Meeting, shareholders approved conversion of 666,665 non-voting shares to voting shares.

The Corporation has authorized, issued and outstanding, 19,475,210 voting common shares as at December 31, 2011.

The warrants were exercisable at $7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2009), subject to a mandatory exercise if, at the Corporation's option, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above $9.00 per common share for twenty (20) consecutive trading days. The warrants expired in October.

	2011	2010
Weighted average shares outstanding, basic	17,036,346	13,104,165
Effect of outstanding options	174,994	163,314
Effect of outstanding RSUs	384,400	384,400
Weighted average shares outstanding, fully diluted	17,595,740	13,651,879

Dividends

The following dividends were declared and paid by the Corporation:

For the first eleven months of 2011, the Corporation declared a dividend of $0.085 per common share, and in December declared a dividend of $0.095 per common share ($18,014,242 in aggregate). For the year ended December 31, 2010, dividends of $12,628,487 were declared.

9. Debt:

The Corporation has a $30,100,000 secured revolving credit facility with a syndicate of Canadian chartered banks. In June 2011, the Corporation repaid the outstanding balance of $26,200,000 out of proceeds from the sale of MEDIchair and the reduction of its interest in LifeMark Health. The Corporation then drew on a temporarily extended facility of $44,000,000 in October 2011 to fund a further contribution into KMH and the original contribution to Quetico. From funds out of the December 2011 public offering, the Corporation then repaid $37,500,000 of that debt and at December 31, 2011 has $6,500,000 in senior debt outstanding. Interest is payable at the lenders' prime rate plus 3.0% (6.0% at December 31, 2011). The term out date under the credit facility is December 31, 2012. If monies are drawn, and if an extension is not received by December 31, 2012, the facility will be repaid in thirty-six equal monthly installments commencing January 31, 2013. There are financial covenants under this facility and at December 31, 2011, the Corporation is in compliance with each of the covenants based on a letter received by the Corporation from the

lending syndicate clarifying the exclusion of certain non-cash and extraordinary amounts in the calculation of the covenants for the remainder of the term of the agreement.

During 2010, the Corporation repaid in full a $6,500,000 unsecured demand facility with a company controlled by its largest shareholder. Interest was payable at 13.00% per annum.

Total Debt Continuity	Amount
Balance at January 1, 2010	$ 29,050,000
Senior debt repayment, March 2010	(950,000)
Subordinate debt repayment, May 2010	(5,300,000)
Senior debt repayment, June 2010	(950,000)
Senior debt repayment, September 2010	(950,000)
Subordinated debt repayment, December 2010	(1,200,000)
Senior debt advance, December 2010	9,500,000
Balance at December 31, 2010	$ 29,200,000
Senior debt repayment, February 2011	$ (3,000,000)
Senior debt repayment, June 2011	(26,200,000)
Senior debt advance, October 2011	14,500,000
Senior debt advance, November 2011	29,500,000
Senior debt repayment, December 2011	(37,500,000)
Balance at December 31, 2011	$ 6,500,000

10. 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 RSUs and 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 867,667 and issued 384,400 RSUs to management and Directors as of December 31, 2011. The RSUs issued to directors vest over a three-year period. The RSUs issued to management (290,650) do not vest until the end of the three-year period 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. Payments in lieu of dividends on the unvested RSUs are made monthly in accordance with the Corporation’s dividend policy. Payments to management are split evenly between cash and common shares.

For the year ended December 31, 2011, the Corporation incurred stock-based compensation expenses of $1,978,727 (2010 - $1,817,981) which includes: $1,247,452 (non-cash expense) for the RSU Plan expense that is to be amortized over the thirty-six month vesting period of the plan (2010 - $1,521,424); $152,550 (non-cash expense) for shares issued in the year in lieu of dividends under the RSU Plan (2010 - $138,050); and $578,725 (non-cash expense) for the amortization of the fair

10. Share-based payments (continued):

value of outstanding stock options (2010 - $158,507). The Corporation has reserved 1,216,476 and issued 929,975 options that vest over a four-year period and expire in five years.

The options outstanding at December 31, 2011, have an exercise price in the range of $7.27 to $16.87 and a weighted average contractual life of 3.7 years (2010 – 4.0 years).

	Weighted Avg Exercise Price 2011	Number of Options 2011	Weighted Avg Exercise Price 2010	Number of Options 2010
Outstanding at January 1	$11.01	610,150	$10.52	319,150
Exercised during the year	10.86	(10,375)	-	-
Granted during the year	16.32	330,000	11.56	291,000
Outstanding at December 31	12.96	929,775	11.01	610,150
Exercisable at December 31	$11.06	279,956	$11.12	134,575

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

	Oct 2008	Dec 2009	Dec 2010	Aug 2011	Dec 2011
Dividend yield	12.00%	10.50%	8.72%	6.68%	6.79%
Expected volatility	38.00%	56.0%	51.79%	46.49%	45.08%
Risk free rate of return	2.66%	2.21%	2.23%	1.61%	1.16%
Expected life	4.325	4.325	4.325	4.325	4.325
Weighted average value	$ 1.2840	$ 1.5639	$ 2.5887	$ 3.5070	$ 3.5666

11. Related parties:

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary, Alaris USA Inc, a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation.

In 2010, the Corporation had a $6.5 million demand loan owing to a company controlled by the Corporation's largest shareholder. The loan was repaid before the end of 2010. For the year ended December 31, 2010, the Corporation paid interest of $410,515 to this company.

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:

	2011	2010
Base salaries and benefits	638,610	625,934
Bonus	900,000	172,500
Share-based payments (non-cash)	1,504,175	1,407,940
	3,042,785	2,206,374

12. Commitments:

In 2009, the Corporation signed a seven-year lease at a new location that commenced December 1, 2009, ending November 30, 2016. The Corporation's annual commitment under this lease is as follows:

2012	$	159,851
2012		166,354
2013		166,354
2014		166,354
2016		152,491
	$	811,406

13. Explanation of transition to IFRS:

As stated in note 1, these are the Corporation's consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing the consolidated financial statements for the year ended December 31, 2011, the comparative information presented in these consolidated financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS statement of financial position at January 1, 2010 (the Corporation's date of transition).

In preparing its opening IFRS statement of financial position, the Corporation has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous GAAP to IFRS has affected the Corporation's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs	Previous GAAP	Effect of Transition To IFRSs	IFRSs
			1 January 2010			31 December 2010	
Assets							
Cash and cash equivalents		3,826,000	-	3,826,000	1,816,868	-	1,816,868
Prepayments		103,472	-	103,472	343,184	-	343,184
Trade and other receivables		2,470	-	2,470	688,514	-	688,514
Current tax assets	d	2,996,000	(2,996,000)	-	-	-	-
Current assets		6,927,942	(2,996,000)	3,931,942	2,848,566	-	2,848,566
Equipment		74,477	-	74,477	69,671	-	69,671
Intangible assets		13,070,150	-	13,070,150	12,896,916	-	12,896,916
Preferred LP Units	c	111,124,642	11,161,358	122,286,000	157,363,963	25,543,037	182,907,000
Investment tax receivable		11,030,007	-	11,030,007	10,922,393	-	10,922,393
Deferred income taxes	d	22,248,900	205,267	22,454,167	25,527,962	(7,369,770)	18,158,192
Non-current Assets		157,548,176	11,366,625	168,914,801	206,780,905	18,173,267	224,954,172
Total assets		164,476,118	8,370,625	172,846,743	209,629,471	18,173,267	227,802,738

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs	Previous GAAP	Effect of Transition To IFRSs	IFRSs
			1 January 2010			31 December 2010	
Liabilities							
Loans and borrowings		19,700,000	-	19,700,000	29,200,000	-	29,200,000
Deferred credit	b	23,661,017	(23,661,017)	-	20,795,507	(20,795,507)	-
Deferred income taxes	d	1,347,755	(1,347,755)	-	4,176,890	(4,176,890)	-
Non-current liabilities		44,708,772	(25,008,772)	19,700,000	54,172,397	(24,972,397)	29,200,000
Current tax liabilities		47,808	(47,808)	-	-	-	-
Trade payables		939,085	-	939,085	1,421,992	-	1,421,992
Dividends payable		802,604	-	802,604	1,396,262	-	1,396,262
Loans and borrowings		9,350,000	-	9,350,000	-	-	-
Current liabilities		11,139,497	(47,808)	11,091,689	2,818,254	-	2,818,254
Total liabilities		55,848,269	(25,056,580)	30,791,689	56,990,651	(24,972,397)	32,018,254
Equity							
Share capital		111,125,039	538,109	111,663,148	156,858,637	543,691	157,402,328
Warrants		845,000	-	845,000	405,306	-	405,306
Equity reserve	a	1,471,333	398,568	1,869,901	2,831,112	343,719	3,174,831
Fair value reserve		-	9,766,188	9,766,188	-	22,350,157	22,350,157
Retained earnings	d	(4,813,523)	22,724,340	17,910,817	(7,456,235)	19,908,097	12,451,862
Total equity		108,627,849	33,427,205	142,055,054	152,638,820	43,145,664	195,784,484
Total Liabilities and Equity		164,476,118	8,370,625	172,846,743	209,629,471	18,173,267	227,802,738

Reconciliation of comprehensive income for the year ended December 31, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Revenues				
Royalties and distributions		$16,657,034	-	$16,657,034
Interest and other		2,190	-	2,190
Total Revenue		16,659,224	-	16,659,224
Salaries and benefits		1,060,915	-	1,060,915
Corporate and office		626,990	-	626,990
Legal and accounting fees		443,262	-	443,262
Stock-based compensation	a	226,105	(226,105)	-
Non-cash stock-based compensation	a	1,872,830	(54,849)	1,817,981
Depreciation and amortization		190,028	-	190,028
Subtotal		4,420,130	(280,954)	4,139,176
Earnings from operations		12,239,094	280,954	12,520,048
Finance cost		1,707,713	-	1,707,713
Earnings before taxes		10,531,381	280,954	10,812,335
Deferred income tax expense		545,609	2,865,510	3,411,119
Earnings		$9,985,772	(2,584,556)	$7,401,216
Other comprehensive income				
Net change in fair value of available-for-sale financial assets	c	-	14,381,679	14,381,679
Tax impact of fair value adjustment		-	(1,797,710)	(1,797,710)
Other comprehensive income for the period, net of income tax		-	12,583,969	12,583,969
Total comprehensive income for the period		$9,985,772	9,999,413	$19,985,185
Earnings per share				
Basic earnings per share		$0.76	($0.20)	$0.56
Diluted earnings per share		$0.73	($0.19)	$0.54

Reconciliation of statement of cash flows for the year ended December 31, 2010

	Note	Previous GAAP	Effect of Transition To IFRSs	IFRSs
Cash flows from operating activities				
Earnings for the year	a,b	$9,985,772	$(2,584,556)	$7,401,216
Adjustments for:				
Finance costs		1,513,863	-	1,513,863
Deferred income taxes	b	545,609	2,865,510	3,411,119
Depreciation and amortization		190,028	-	190,028
Non-cash stock based compensation	a	1,872,830	(54,849)	1,817,981
		14,108,102	226,105	14,334,207
Change in non-cash working capital		(442,850)	-	(442,850)
Cash generated from operating activities		13,665,252	226,105	13,891,357
Finance costs		(1,513,863)	-	(1,513,863)
Net cash from operating activities		$12,151,389	$226,105	$12,377,494
Cash flows from investing activities				
Acquisition of equipment		(11,989)	-	(11,989)
Acquisition of Preferred LP Units		(46,239,320)	-	(46,239,320)
Net cash used in investing activities		$(46,251,309)	-	$(46,251,309)
Cash flows from financing activities				
New share capital, net of share issue costs		39,487,617	-	39,487,617
Proceeds from exercise of warrants		4,488,000	-	4,488,000
Proceeds from debt		9,500,000	-	9,500,000
Repayment of debt		(9,350,000)	-	(9,350,000)
Dividends to shareholders		(12,034,829)	-	(12,034,829)
Payments in lieu of dividends on RSUs	a	-	(226,105)	(226,105)
Net cash from/(used in) financing activities		$32,090,788	$(226,105)	$31,864,683
Net increase/(decrease) in cash and cash equivalents		(2,009,132)	-	(2,009,132)
Cash and cash equivalents, Beginning of year		3,826,000	-	3,826,000
Cash and cash equivalents, End of year		$1,816,868	$-	$1,816,868

Notes to the reconciliations

(a) Previously under GAAP, the Company accounted for share based payments by allocating expenses for each option issuance on a straight-line basis. Under IFRS, the related expense has been adjusted to reflect graded vesting of the outstanding share-based payments. Additionally, payments in lieu of dividends on RSUs were previously expensed under GAAP and now are recorded as dividends under IFRS. The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income	1 January 2010	31 December 2010
Non-cash stock based compensation expenses		$ (54,849)
Stock based compensation expenses		(226,105)
Adjust before income tax		(280,954)
Consolidated statement of financial position		
Contributed surplus	$ 398,568	280,954
Related tax effect	(115,585)	(81,477)
Adjustment to retained earnings	$ 282,983	$ 199,477

(b) Previously under GAAP, as a result of accounting for a reverse takeover in July 2008, the Company recorded a deferred credit on its Balance Sheet. IFRS does not recognize the existence of the deferred credit thus it is immediately written off against retained earnings. The impact arising from the change is summarized as follows:

Consolidated statement of financial position	1 January 2010	31 December 2010
Deficit/Retained earnings	$ 23,661,017	$ 20,795,507
Adjustment to retained earnings	$23,661,017	$ 20,795,507

(c) In accordance with IFRS, financial assets designated as available-for-sale have been recognized at fair value. Under GAAP, these assets were previously carried at cost. The impact arising from the change is summarized as follows:

Consolidated statement of comprehensive income	1 January 2010	Year ended 31 Dec 2010
Net change in fair value of available for sale assets		$14,381,679
Adjust before income tax		14,381,679
Consolidated statement of financial position		
Preferred LP Units	$ 11,161,358	14,381,679
Related tax effect	(1,395,170)	(1,797,710)
Adjustment to retained earnings	$ 9,766,188	$ 12,583,969

(d) In accordance with IFRS, no deferred income tax balances are shown as current on the consolidated statement of financial position.

Management's Discussion & Analysis

MANAGEMENT DISCUSSION AND ANALYSIS

This management's discussion and analysis ("**MD&A**") should be read in conjunction with the audited financial statements for the years ended December 31, 2011 and December 31, 2010 for Alaris Royalty Corp., ("**Alaris**" or the "**Corporation**"). The financial statements of the Corporation have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and are recorded in Canadian dollars. (See "Transition to International Reporting Standards" under "New Accounting Pronouncements" in this Management's Discussion and analysis). 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 and Available Working Capital, to assist in assessing the Corporation's financial performance. The terms EBITDA and Available Working Capital (the "**Non-IFRS Measures**") are financial measures used in this MD&A that are not standard measures under IFRS. The Corporation's method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Corporation's Non-IFRS measures may not be comparable to similar measures presented by other issuers. See "Results of Operations" for a reconciliation of EBITDA to earnings and "Liquidity" for a reconciliation of Available Working Capital to working capital.

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. Items include expenses incurred in connection with the reduction of interests in two of the private businesses the Corporation has transacted with.

The Corporation has provided a reconciliation of net income to EBITDA and Normalized EBITDA and working capital to Available Working Capital in this MD&A. These Non-IFRS measures should only be used in conjunction with the Corporation's annual audited statements, excerpts of which are available below, while complete versions are available on SEDAR at www.sedar.com.

OVERVIEW

The Corporation earns its revenues by providing capital to private businesses. The Corporation's revenue consists of royalties and preferred distributions received in regular monthly payments that are contractually agreed to between the Corporation and each Private Company Partner. These payments are set for twelve months at a time and adjusted annually based on the 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 seven employees.

RESULTS OF OPERATIONS

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

2011 was a significant year for the Corporation as it continued to focus on what it believes are the five main "pillars" to providing a growing, yet sustainable dividend to Alaris shareholders. They are as follows:

1. **Diversification**
   - Alaris realized a $27.7 million gain on the reduction of its financial interest in LifeMark.
   - The proceeds from the LifeMark transaction, as well as additional capital sources, were used to add two new partners as well as to make a further contribution to an existing partner. As a result, Alaris' largest revenue stream went from 68% in 2010 to 43% in 2011 and will be under 25% in 2012 based on current contractual revenue sources.
2. **Growth**
   - The addition of two new partners, Killick in July 2011 and Quetico in December 2011 provided for growth to Alaris' distributable cash.
   - The Corporation completed a follow on contribution into KMH Limited Partnership in October 2011.
   - Alaris increased its monthly dividend by 12% and provided a total annual return to shareholders of over 60%.
3. **Reducing Volatility**
   - The Corporation locked in a fixed growth metric for LifeMark's annual distribution at 4% per year and negotiated collars on the maximum increase or decrease of the annual distributions from Killick and Quetico.
4. **Visibility**
   - Revenues from the Corporation's seven partners for 2012 are already determined.
   - The Corporation has predictable and low general and administrative expenses.
5. **Liquidity**
   - The Corporation's float increased by 15% in 2011 and daily trading volume continues to grow.

Revenues for the year ended December 31, 2011 reflect distributions from transactions involving each of Alaris' Partners for that year. In 2011, revenues from the Partners totaled $21.5 million compared to $16.7 million in the year ended December 31, 2010. The increase of 29% compared to the prior year is a result of year over year performance metric adjustments from each of the current Partners and the addition of new Partners. Revenues from LifeMark were $9.22 million compared to $11.33 million in the prior year, a decrease of 18.6%. Alaris sold approximately 50% of its financial interest in LifeMark on June 9, 2011

which was partially offset by a 6.45% same clinic sales increase that increased distributions from LifeMark effective January 1, 2011. LifeMark's physiotherapy business is not economy dependent as people will continue to get hurt and require rehabilitative services. Going forward, annual distributions of $6.75 million will increase by 4% each July. Revenues from LMS were $1.68 million compared to $1.99 million in the prior year, a decrease of 16% due to the year over year performance adjustment based on the change in gross profit for LMS effective Jan 1, 2011. The annual distribution actually increased effective April 1, 2011 but the decline left over from the first quarter of 2011 offset the increase for the remainder of the year. Revenues from End of the Roll were $1.25 million in the year compared to $1.35 million in the prior year, a decrease of 7.8% as a result of the same store sales adjustment to the annual royalty effective May 1, 2011. Distributions from KMH were $1.28 million compared to $0.56 million for the prior year. The 127.1% increase is due to a follow on investment in October 2011 of $22.4 million. Distributions from Solowave commenced in December 2010 and were $5.0 million in the year. Distributions from Killick commenced in July 2011 and were $2.08 million in the year. Distributions from Quetico commenced in November 2011 and were $0.45 million in the year. Revenues from MEDIchair. were $0.53 million in the year compared to $1.20 million for the prior year as the MEDIchair royalty was sold on June 9, 2011. See "Private Company Partner Update" for more information on the individual Partners' performance.

Finance costs of $1,235,348 in the year were lower compared to $1,707,713 in the prior year because of lower senior debt and no subordinated outstanding in 2011.

In the year ending December 31, 2011, the Corporation recorded non-cash stock based compensation expenses totaling $1,978,727 (2010 - $1,817,981) that included: $1,247,452 to amortize the fair value of the RSU Plan (2010 – $1,521,424); $578,725 to recognize the fair value of outstanding stock options (2010 – $158,507); and $152,550 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan (2010 - $138,050). Also in the year, the Corporation made cash payments based on current dividend rates of $248,653 to employees and directors in lieu of dividends under the RSU Plan (2010 - $226,105).

Salaries and benefits were $1,875,508 in the year compared to $1,060,915 in the prior year period. In recognition of the Corporation's continuing success, and as a result of the significant gains realized on the LifeMark and MEDIchair transactions, the Corporation paid a $1 million management performance bonus at June 30, 2011 compared to a $250,000 bonus paid in December 2010. Regular salaries and benefits were up 7% compared the prior year period due to a small increase in the salary of one employee effective January 1, 2011 and a modest increase in the cost of benefits.

Corporate and office expenses were $859,727 compared to $626,990 in the prior year and include office rent, travel and corporate administrative expenses. The 37.1% increase was due to the higher travel and associated costs in 2011 with increased deal flow including the Corporation's first transaction in the United States. Additionally, TSX fees and other regulatory administrative expenses increased along with the market capitalization of the Corporation compared to the prior year and the Corporation hosted its first annual conference in 2011 bringing together the executive teams of each of the Partner companies.

Legal and accounting expenses were $556,621 for the year compared to $443,262 for the prior year. The 25.6% increase was due to additional legal costs associated with the Corporation's first international Partner and additional accounting fees due to the first full year of reporting under IFRS.

Amortization and depreciation include the amortization of the intangible assets and the depreciation of capital assets. The Corporation amortizes its intangible assets over the term of the licensing agreement and depreciates capital assets over the estimated useful lives. The Corporation does not amortize preferred interests in limited partnerships. Since these transactions are treated as financial instruments, they are

assessed for objective evidence of impairment at each balance sheet date. The Corporation recorded amortization and depreciation of $143,244 (2010 - $190,028) in the year ended December 31, 2011. The amortization expense decreased with the sale of the MEDIchair royalty in June 2011.
$3.2 million of the accounts receivable balance of $3.44 million at December 31, 2011 related to a short term promissory note to KMH as a bridge to finance a portion of their acquisition the Corporation financed in October 2011. That note was repaid in full in February 2012.

The Corporation recorded earnings of $34.7 million, EBITDA of $43.8 million and Normalized EBITDA of $16.1 million for the year ended December 31, 2011 compared to earnings of $7.4 million, EBITDA and Normalized EBITDA of $12.7 million for the year ended December 31, 2010. The increase in earnings, EBITDA and Normalized EBITDA can be attributed to the significant gains on the reduction of financial interest in LifeMark and the sale of the MEDIchair intangible assets. Earnings and EBITDA also increased due to the addition of new Partners in Solowave (Dec 2010), Killick (July 2011) and Quetico (Dec 2011).

Reconciliation of Net Income to EBITDA (thousands)	**Year ending December 31, 2011**	**Year ending December 31, 2010**
Net Income	$34,712	$7,401
Adjustments to Net Income:		
Amortization and depreciation	143	190
Interest	1,235	1,708
Income tax expense	7,729	3,411
EBITDA	**$43,819**	**$12,710**
Normalizing Adjustments		
Gain on sale of intangible assets	(3,892)	-
Gain on reduction of LifeMark interest	(23,816)	-
Normalized EBITDA	**$16,111**	**$12,710**

For the year ending December 31, 2011, dividends were declared for January through November at $0.085 per common share; and for December it was increased to $0.095 per common share totalling $18,014,242 for the year. In the prior year, dividends were declared for totalling $12,628,487 for the prior year.

Three Months Ended December 31, 2011 Compared to Three Months Ended December 31, 2010

Revenues for the three months ended December 31, 2011 reflect Distributions from transactions involving each of Alaris' seven Partners for that period. In this period, revenues from the Partners totaled $5.8 million compared to $4.4 million in the three months ended December 31, 2010. The increase of 32.1% compared to the prior period is a result of new Partners added in the last twelve months as well as year over year performance metric adjustments from each of the Partners. Revenues from LifeMark were $1.69 million compared to $2.78 million in the same prior year period, a decrease of 42.9% due to the reduction of the Corporation's interest in LifeMark on June 9, 2011. Revenues from LMS were $0.42 million in the period compared to $0.39 million in the prior year period, an increase of 9.4% due to the year over year performance adjustment based on the change in gross profit for LMS effective January 1, 2011. Revenues from End of the Roll were $0.28 million in the quarter compared to $0.32 million in the same prior year period, a decrease of 13.4% as a result of a same store sales decrease that was effective May 1, 2011. Distributions from KMH were $0.62 million in the period compared to $0.22 million in the same prior year period. The 182.5% increase due to a further investment into KMH of $22.4 million in October 2011. Distributions from Solowave were $1.25 million compared to only $0.21 million in the same prior year period since the distributions only commenced in mid-December 2010. Distributions from Killick commenced in July 2011 and were $1.08 million in the period. Distributions from Quetico commenced in November 2011 and were $0.45 million in the period. Revenues from MEDIchair were nil in the quarter

compared to $0.31 million for the same prior year period, as the MEDIchair royalty was sold in June 2011. See "Private Company Partner Update" for more information on the individual Partners' performance.

Interest expense of $356,581 in the period was 32.9% lower compared to $531,079 in the prior year period because of lower senior debt levels.

In the three months ending December 31, 2011, the Corporation recorded non-cash stock based compensation expenses totaling $387,377 (2010 – $450,638) that included: $159,035 to amortize the fair value of the Corporation's restricted share unit plan (the "RSU Plan") (2010 –373,633); $186,942 to recognize the fair value of outstanding stock options (2010 – $41,255); and $41,400 to recognize the fair value of shares issued to management in lieu of dividends under the RSU Plan (2010 - $35,750). Also in the quarter, the Corporation made cash payments based on current dividend rates of $65,754 to employees and directors in lieu of dividends under the RSU Plan (2010 - $61,136). Salaries and benefits were $214,099 in the quarter, down 50% compared to the prior year period due to a management bonus paid in the fourth quarter of 2010 and starting in 2011, that management bonus was paid in the second quarter. There were no salary adjustments in this period.

Corporate and office expenses were $267,396 compared to $159,764 in the prior year and include office rent, travel and corporate administrative expenses. The 67.4% increase was due mostly to TSX fees and other regulatory administrative expenses increasing along with the market capitalization of the Corporation compared to the prior year period.

Legal and accounting expenses were $178,945 for the three months ended December 31, 2011 compared to $122,045 for the prior year period. The 46.6% increase is due to increased accounting fees due to IFRS and increased legal fees due to international structuring around the Quetico transaction.

The Corporation recorded depreciation and amortization of $26,901 in the three months ended December 31, 2011, down 43% from the prior year due to the sale of the MEDIchair royalty in June 2011.

The Corporation recorded earnings of $6.4 million and EBITDA of $4.6 million for the three months ended December 31, 2011 compared to earnings of $1.6 million and EBITDA of $3.2 million for the three months ended December 31, 2010. The increase in earnings and EBITDA can be attributed to the new transactions with Solowave, Killick and Quetico that would have no revenues associated with them in the same period in 2010. The expenses of the Corporation did not change materially from the prior year period.

Reconciliation of Net Income to EBITDA (thousands)	**3 months ending December 31, 2011**	**3 months ending December 31, 2010**
Net Income	$6,369	$1,625
Adjustments to Net Income:		
Amortization and depreciation	27	48
Interest	357	531
Income tax expense	(2,168)	1,035
EBITDA	**$4,585**	**$3,239**

For the three months ending December 31, 2011, dividends were declared in October and November at $0.085 per common share (voting and non-voting) and in December were increased to $0.095 per common share totalling $5,074,216 for the quarter. In the prior year period, dividends were declared in October and November at $0.08 per common share and in December were increased to $0.085 per common share totalling $3,620,808 for the quarter.

A portion of the cash held at December 31, 2010 of $3.9 million was used to satisfy the dividend declared in December 2011 (payable January 15, 2012).

The Corporation has a $30.1 million interest only senior debt facility with a two-member Canadian bank syndicate, which was drawn to $6.5 million at December 31, 2011. Interest is paid monthly at the lenders' prime rate plus three percent per annum (6.0% at December 31, 2011). During the current quarter, the Corporation drew $44 million for the Quetico transaction and repaid $37.5 million out of the proceeds of a public offering in December 2012.

The Corporation has recorded a $14 million Deferred tax asset on its balance sheet to reflect the accounting value of unused tax pools based on the Corporation's internal projections.

Private Company Partner Update

The Corporation's interest in each of the Partners consist of a preferred partnership interest or ownership of intellectual property with a return based on a formula linked to a top-line metric (sales or gross profit) rather than a residual equity interest in the net earnings of such entities. The Corporation's role with each of the Partners is passive in all cases. 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. Instead, the Corporation has certain restrictive covenants in place designed to protect the ongoing payment of the annual royalties and distributions payable to Alaris. In addition, the Partners are required to obtain the consent of Alaris in certain circumstances prior to entering into a material transaction. Such transactions generally include acquisitions & divestitures, major capital expenditures and incurring additional indebtedness.

LifeMark – Physiotherapy and rehabilitation services have not historically seen any significant year over year swings as people will continue to get injured and require the services that LifeMark provides. However, based on the terms of the amended Partnership agreement dated June 9, 2011, the LifeMark distribution will now increase by 4% each period ending June 30. The distributions are now supported by LifeMark's parent company, Centric Health Corporation, a Canadian public company, who will report to Alaris quarterly going forward. For the nine months ended September 30, 2011, Centric's revenues are 172% and EBITDA is 125% ahead of the prior year period results. The significant year over year improvement comes from the impact of the LifeMark acquisition as the September numbers are the first full quarter since the LifeMark acquisition.

LMS – Volumes increased significantly in LMS' September 2011 fiscal year and are expected to continue to improve based on work on hand and recent project bidding activity. Based on audited financial statements for the year ended September 30, 2011, total volumes are over 100% ahead of the prior year and total gross profit dollars are 20% higher than the prior year. Total gross profit is the top-line performance metric on which the annual distributions to the Corporation are reset. A portion of the annual distributions from LMS were reset on January 1, 2012 and the remainder on April 1, 2012 based on the September 2011 results. LMS management expects continued improvement into its 2012 fiscal year.

End of the Roll – End of the Roll completed its sixth fiscal year as an Alaris partner on April 30, 2011. Same store sales results are the top-line performance metric on which the annual payments to the Corporation are reset. Same store sales for End of the Roll decreased 13% for the year ended April 30, 2011 as the impact of the removal of the renovation tax credit by the Canadian government had more impact on their business than originally thought. Based on unaudited financial statements for the eight months ended December 31, 2011, revenues and EBITDA are marginally ahead of prior year results.

KMH – In October 2011, the Corporation announced the purchase of additional preferred partnership units in KMH Limited Partnership for an aggregate acquisition cost of $22.4 million, on top of the $5 million in preferred partnership interests purchased in April 2010. KMH is a private healthcare company operating eight diagnostic clinics (nuclear medicine, cardiology and MRI) in Ontario and now four clinics in the United States. Distributions on the KMH preferred units were set at $875,000 for the first twelve months on the original $5 million transaction and are scheduled at $4.2 million for 2012 after the recent purchase of additional units. Based on unaudited internal financial statements provided by KMH's management for the year ended November 30, 2011, total revenues are modestly ahead of prior year results and EBITDA is modestly behind prior year results due to rising input costs in the business but the distributions to Alaris remain less than half of KMH's EBITDA. Same clinic sales is the top-line performance metric on which the annual distributions to the Corporation are reset and were flat leaving the second year of distributions at the same level. To have achieved flat same clinic sales in what was an extremely challenging year for the well-documented shortage of nuclear isotopes in Canada was viewed as an excellent performance indicator by the Corporation's management.

Solowave – In December 2010, the Corporation purchased preferred partnership units in Solowave Design Limited Partnership for an aggregate acquisition cost of $32.5 million. Solowave is a Canadian-based privately held designer and manufacturer of residential, ready-to-assemble wooden play centers. Solowave sells its products under the brands "Big Backyard" and "Cedar Summit Play Systems". Solowave's year end is October 31st and based on audited financial statements for the year ended October 31, 2011, revenues were 4% ahead and EBITDA was 4% behind prior year results. Annual growth in Solowave's distributions to Alaris is capped at 6%. There is also a maximum decline in the annual distributions of 6%. The annual distributions go up and down with Same Customer Net Sales and Solowave's auditor prepared a schedule for the Corporation showing a same customer net sales decline of 0.8% for the 2011 period. The small decline a direct result of poor spring weather across North America in 2011 that impacted the level of spring re-orders.

Killick – In July 2011, the Corporation announced the purchase of preferred partnership units in Killick Aerospace Partnership for an aggregate acquisition cost of $27.2 million. Killick is a Canadian-owned, Dallas-based privately help participant in the global aircraft maintenance, repair and overhaul industry. Killick's year end is December 31st and based on unaudited internal financial statements for the year ended December 31, 2011, revenues and EBITDA are marginally ahead of the prior year results. Annual growth in Killick's distributions to Alaris is capped at 4% and is based on the change in gross revenues. There is also a maximum decline in the annual distributions of 4%.

Quetico – In November 2011, the Corporation announced the purchase of preferred LLC units in Quetico, LLC for an aggregate acquisition cost of $26.9 million USD. Quetico is a California based inventory management company which provides value added services to "big box" retailers, designers, manufacturers and outlet retailers in the soft goods category. Primarily offering value added inventory management and fulfillment solutions in apparel and accessories, the company has created a highly specialized niche within the industry. Quetico's year end is December 31st and based on unaudited internal financial statements for the year ended December 31, 2011, revenues and EBITDA are well ahead of the prior year results. Annual growth in Quetico's distributions to Alaris is capped at 10% and is based on the change in gross revenues. There is also a maximum decline in the annual distributions of 20%.

Liquidity and Capital Resources

The Corporation has a $30.1 million senior credit facility ($6.5 million drawn at December 31, 2011) provided by two Canadian chartered banks. The senior facility was renewed on December 31, 2011 at an

interest rate of Canadian prime plus 3% (a decrease of 0.5% over the prior renewal). The senior credit facility is an interest-only, 364-day revolving loan that is due December 31, 2012. The facility carries a three-year term out option in the event the loan is not renewed. Therefore at December 31, 2011, no amount is recorded as a current liability as the first potential principal repayment would be in January 2013 and then only if the facility is not renewed in December 2012. At December 31, 2011, the Corporation met all of its covenants as required by the senior credit facility. Those covenants include a maximum debt to EBITDA of 1.7:1 (0.15:1 at December 31, 2011); minimum tangible net worth of $190.3 million ($236.5 million at December 31, 2011); and a minimum fixed charge coverage ratio of 1:1 (2.33:1 at December 31, 2011). Subsequent to December 31, 2011, the Corporation repaid another $2 million of the outstanding senior credit facility.

The Corporation had 19.475 million voting common shares outstanding at December 31, 2011. The Corporation had working capital of approximately $4.0 million at December 31, 2011. In the year ended December 31, 2011, warrantholders exercised 531,850 warrants at $7.50, generating $4.0 million in cash proceeds that was used for general working capital purposes. Those warrants are now expired. Under the current terms of the various commitments, the Corporation has the ability to meet all current obligations as they become due.

Working Capital

The Company's working capital (defined as current assets less current liabilities) at December 31, 2011and 2010 is set forth in the tables below.

	2011	2010
Cash	3,888,465	1,816,868
Trade and other receivables	3,443,679	688,514
Prepayments	119,508	343,184
Total Current Assets	**$7,451,652**	**$2,848,566**
Accounts payable & accrued liabilities	1,546,705	1,421,992
Dividends payable	1,850,145	1,396,262
Income taxes payable	67,590	
Total Current Liabilities	**$3,464,440**	**$2,818,254**
Net Amount at December 31	**$3,987,212**	**$30,312**

FINANCIAL INSTRUMENTS

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

Financial Instrument	Category	Measurement Method
Cash and cash equivalents	Held for trading	Fair value
Accounts receivable	Loans and receivables	Amortized cost
Preferred LP units	Available for sale	Fair value
Accounts payable and accrued liabilities	Other liabilities	Amortized cost
Bank indebtedness	Other liabilities	Amortized cost
Derivative financial instruments	Loans and receivables	Fair value

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

The Corporation holds derivative financial instruments to hedge its foreign currency exposure. The Corporation has entered into forward contracts equal to the monthly and quarterly flow of funds from its investment in Quetico, the Corporation's lone foreign investment. The Corporation matched 100% of the 2012 scheduled distributions to the Canadian parent and 90% of the expected 2013 distributions resulting in an economic hedge of the foreign currency exposure. The fair value of the forward contracts will be estimated at each reporting date and any gain or loss on the contracts will be recognized in profit or loss.

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

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

	Total	0-6 Months	6 mo – 1 yr	1 – 2 years	3 – 4 years
Accounts payable and accrued liabilities	1,546,705	1,546,705	0	0	0
Dividends payable	1,850,145	1,850,145	0	0	0
Income taxes payable	67,590	67,590	0	0	0
Bank indebtedness	6,500,000	0	0	4,333,333	2,166,667
Total	**9,964,440**	**3,464,440**	**0**	**4,333,333**	**2,166,667**

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

A. Disclosure Controls and Procedures

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, 2011.

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, 2011. 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 and provide reasonable assurance regarding the reliability of the Corporation's financial reporting and its preparation of financial statements for external purposes in accordance with Canadian GAAP and are effective as of December 31, 2011.

Internal controls over financial reporting, no matter how well designed, have inherent limitations and can only provide reasonable assurance with respect to financial statement presentation and may not prevent or detect all misstatements.

SUMMARY OF CONTRACTUAL OBLIGATIONS

Other than the senior credit facility described under "Liquidity and Capital Resources", the only material contractual obligation of the Corporation is its lease for office space. The Corporation agreed to a new seven-year lease at a new location that commenced in 2009. Annual leasing costs will be approximately $160,000.

Contractual Obligations	Total	Less than 1 year	1 – 3 years	4 – 5 years	After 5 years
Long term debt	6,500,000	0	6,500,000	0	0
Office lease	811,406	159,851	499,063	152,491	0
Total Contractual Obligations	7,311,406	159,851	6,999,063	152,491	0

TRANSACTIONS WITH RELATED PARTIES

In 2011, the Corporation formed a wholly-owned subsidiary, Alaris Cooperatief, U.A., a cooperative in The Netherlands. The Corporation also formed a wholly-owned subsidiary of the Corporation, Alaris USA Inc, a Delaware Corporation. All intercompany loans, interest and dividends have been eliminated upon consolidation. All transactions with related parties are recorded at exchange amount. Related party transactions are measured at fair value.

In 2010, the Corporation had a $6.5 million demand loan owing to a company controlled by the Corporation's largest shareholder. The loan was repaid before the end of 2010. For the year ended December 31, 2010, the Corporation paid interest of $410,515 to this company.

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:

	2011	2010
Base salaries and benefits	638,610	625,934
Bonus	900,000	172,500
Share-based payments (non-cash)	1,504,175	1,407,940
	$3,042,785	**$2,206,374**

Critical Accounting Estimates and Policies

Management is required to make estimates when preparing the financial statements. Significant estimates include the amount of liabilities for services provided but not yet invoiced, stock-based compensation expenses, future income tax amounts, valuation of intangible assets and preferred limited partnership units and valuation of outstanding warrants.

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 or LLC's 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

Transition to International Financial Reporting Standards

The Corporation has adopted International Financial Reporting Standards ("IFRS") for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its 2010 Annual Management's Discussion and Analysis. The assessments and impacts discussion in the 2010 Annual Management's Discussion and Analysis remains largely unchanged.

Upon implementation of IFRS, the Corporation recognized an increase in the fair value of LifeMark Health and a decrease in the fair value of LMS while the fair values of Solowave and KMH are unchanged. The impact of these two adjustments resulted in a net increase to the value of Preferred LP units of $11.2 million effective January 1, 2010, a net increase to the value of Preferred LP units of $14.4 million at December 31, 2010. Under IFRS in 2011, the Corporation recognized a net increase to the value of Preferred LP units of $1.1 million for the year ended December 31, 2011.

Upon implementation of IFRS, the Canadian GAAP deferred credit was reclassified to retained earnings at January 1, 2010. Additionally, all deferred income tax asset and liability accounts were combined into one net deferred income tax asset at each of January 1, 2010, December 31, 2010 and December 31, 2011.

Upon implementation of IFRS, the Corporation recognized an increase to stock-based compensation expenses recorded to date at January 1, 2010 of $0.398 million and a decrease to stock-based compensation expenses of $0.055 million for the year ended December 31, 2010. Also upon implementation of IFRS, the Corporation reduced stock-based compensation and increased dividends paid in 2010 by $0.226 million for all payments in lieu of dividends under the RSU Plan. Under IFRS for the year ended December 31, 2011, payments in lieu of dividends under the RSU Plan were $0.249 million.

The Corporation has provided a detailed explanation of the impacts of this transition in Note 13 of the Corporation's 2011 audited financial statements ("Note 13"). Note 13 includes reconciliations of the

Corporation's balance sheet and shareholder's equity from Canadian GAAP to IFRS at January 1, 2010 and December 31, 2010, its net income and comprehensive income and its statement of cash flows for the year ended December 31, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Corporation's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards".

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Corporation, except for IFRS 9, Financial Instruments, which becomes mandatory for the Corporation's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Corporation does not plan to adopt this standard early and the extent of the impact has not been determined.

SUMMARY OF ANNUAL RESULTS

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

	2011	2010	2009
Revenue	49,274	16,659	18,071
Earnings	34,712	7,401	17,497
Basic and Diluted Income per Share/Unit	Basic - $2.04	Basic - $0.56	Basic - $1.83
	Diluted - $1.97	Diluted - $0.54	Diluted - $1.83
Total Assets	246,478	227,803	164,476
Total Financial Liabilities	$9,964	$32,018	$30,792
Cash Dividends/Distributions declared per Share/Unit	Basic - $1.06	Basic - $0.96	Basic - $0.95
	Diluted - $1.02	Diluted - $0.93	Diluted - $0.95

Revenue and earnings for the year ended December 31, 2011 were increased by the $27.7 million in gains on the reduction of the Corporation's interest in LifeMark and the sale of its interest in MEDIchair. Before that adjustment, basic and fully-diluted income per share in 2011 was $0.67 and $0.65, respectively. The net income for the year ended December 31, 2009 was increased by a $6 million non-cash recovery of future income taxes as a result of the extension of expiry dates on investment tax credits. Before that adjustment, basic and fully-diluted income per share in 2009 was $1.20. The 2009 figures were prepared using Canadian GAAP.

The Corporation has sufficient cash flow to pay out dividends but due to a number of non-cash items including depreciation and amortization, deferred income tax expense and stock based compensation expense, dividends paid can exceed earnings. Below is a table showing cash from operations from the audited statement of cash flows compared to dividends paid in the year. The 2009 figures were prepared using Canadian GAAP. In 2011, the gains from the reduction of interest in LifeMark allowed the Corporation to temporarily go above 100% but the current run rate of net cash from operating activities at December 31, 2011 is below 100%.

	2011	2010	2009
Net cash from operating activities	14,610	12,377	13,953
Dividends/distributions paid	17,560	12,035	9,362
Payout ratio	120%	99%	67%

SUMMARY OF QUARTERLY RESULTS

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

	Q4-11	Q3-11	Q2-11	Q1-11	Q4-10	Q3-10	Q2-10	Q1-10
Revenue	5,815	4,842	32,957	5,635	4,403	4,165	3,897	4,194
Income from operations	6,369	2,721	22,710	2,925	2,100	2,808	2,478	2,599
Basic and Diluted Income (loss) per Share/Unit	$0.36 $0.35	$0.16 $0.16	$1.34 $1.30	$0.17 $0.17	$0.15 $0.14	$0.20 $0.20	$0.20 $0.19	$0.22 $0.21

All periods reflect the implementation of IFRS. Q4-2011 includes a recovery of deferred income taxes of $2.3 million. Q2-2011 includes the significant gains from the LifeMark Transaction. The net income for the three months ended December 31, 2010 was lower than the previous quarter due to a $0.4 million future income tax expense recorded in the period.

OUTSTANDING SHARES

At December 31, 2011, the Corporation had authorized, issued and outstanding, 19,475,210 voting common shares.

In the year ended December 31, 2011, the Corporation issued: 2,464,800 shares by way of short form prospectus; 531,850 shares as a result of the exercise of warrants; 10,375 shares as a result of the exercise of options; 10,331 shares under the Restricted Share Unit ("RSU") Plan; and 31,250 shares that vested to Directors under the RSU Plan. During the year ended December 31, 2011, at the Annual General Meeting, shareholders approved conversion of 666,665 non-voting shares to voting shares. The Corporation has authorized, issued and outstanding, 19,475,210 voting common shares as at December 31, 2011.

The warrants were exercisable at $7.50 at any time up to twenty-four (24) months from the date of their issue (October 22, 2009), subject to a mandatory exercise if, at the Corporation's option, any time after twelve (12) months from their issue, if the volume weighted average price of the voting common shares on the Toronto Stock Exchange is above $9.00 per common share for twenty (20) consecutive trading days. The warrants expired in October 2011.

At December 31, 2011, 384,400 restricted share units and 929,775 stock options were outstanding under the Corporation's long-term incentive compensation plans. The weighted average exercise price of the outstanding options is $12.96.

Subsequent to December 31, 2011, the Corporation issued 1,533 shares to satisfy the dividend requirement under the RSU Plan. At March 15, 2012, the Corporation had 19,476,743 common shares outstanding.

OUTLOOK

Alaris' agreements with the Partners provide for payments estimated to provide the Corporation approximately $27.8 million of revenues for 2012. For the first quarter of 2012, those same agreements call for revenues of approximately $6.9 million for the Corporation. Annual general and administrative expenses are currently estimated at $3.2 million annually and include all public company costs. The senior debt facility is drawn to $6.5 million (reduced to $4.5 million subsequent to year end) and the annual interest rate on that debt was approximately 6.0% at December 31, 2011. Cash requirements after net

income are expected to be minimal, as current capital expenditures consist of office furniture and computer equipment.

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

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

RISKS AND UNCERTAINTY

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

We have organized our risks into the following categories:

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

Strategic Risk Factors Relating to Our Business

We have limited diversification in our Private Company Partners

Although Alaris currently has seven Private Company Partners, Alaris continues to have limited diversification in its Private Company Partners. The LifeMark Transaction permitted Alaris to rebalance and improve the diversification of our revenue stream. However, 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.

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 the initial 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.

We depend upon the operations and assets of our Private Company Partners.

We are entirely dependent on the operations and assets 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. Distributions to Alaris from our Private Company Partners are generally based on a percentage 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 Private Company Partner to fulfill its distribution obligations to Alaris could materially adversely affect our financial condition and cash flows.

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 (in particular, End of the Roll) are secured by the assets of the Private Company Partner. However, our rights to payment and our security interests are generally subordinated to the payment rights and security interests of a Private Company Partner's commercial lenders.

We do not have significant influence over any of our Private Company Partners or their operations nor do we have the ability to exercise control over such Private Company Partners. The Distributions received by us from our 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 public companies. Therefore, although our Private Company Partners are required to provide Alaris with regular financial and operating information on a monthly and annual basis pursuant to our agreements with them, investors must rely on Alaris Management and it's consultants to investigate and monitor the Private Company Partners.[Consider combining with risk factor on pg. 35, delete sentence if so and replace with the following: (Rider 26 A) Therefore, we rely on our Management and consultants to investigate these businesses. There can be no assurance that our due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. 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, 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 the business cycle. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. 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*".

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 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.

We may be adversely affected by general economic and political conditions

Our business and the business of each of the Private Company Partners are subject to changes in national or North American economic conditions, including but not limited to, recessionary or inflationary trends, equity market levels, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. Market events and conditions in the last 3 years, including disruptions in the international credit markets and other financial systems and the American and European Sovereign debt level resulted in a deterioration of global economic conditions. These conditions have caused a decrease in confidence in the broader U.S. and global credit and financial markets and created 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, concerns remain about the general condition of the capital markets, financial instruments, banks, investment banks, insurers and other financial institutions have caused the broader credit market to further deteriorate and stock market to decline substantially. This volatility may in the future affect our ability to obtain equity or debt financing on acceptable terms. These factors have also negatively impacted company valuations and will impact the performance of the global economy going forward and could have a material adverse effect on our 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 political 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 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.

We face competition with other investment entities

Alaris competes with a large number of private equity funds and mezzanine funds, investment banks, equity and non-equity based investment funds, and other sources of financing, including the public capital markets. Some of our competitors, particularly those operating in the United States, are substantially larger and have considerably greater financial resources and available funding structures than us. 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. 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

Alaris has various unclaimed non-capital losses, scientific research and experimental development expenditure pools and other deductions and credits available to it for Canadian federal income tax purposes. These unclaimed deductions and credits are subject to assessment and possible downward adjustment by Canadian tax authorities. Although we are of the view that all expenses and tax credits claimed by us are reasonable and deductible and have been correctly determined, there can be no assurance that the Canadian taxation authorities will agree. If the Canadian taxation authorities successfully challenge the deductibility of our expenses or the correctness of income tax credits claimed, our operating results could be adversely affected.

Alaris has also established Alaris Coop and Alaris USA for the purpose of financing and entering into arrangements with potential Private Company Partners in the United States and other jurisdictions. Our corporate structure for this purpose was implemented having regard to the 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. 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. 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, our operating results could be adversely affected.

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.

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

We expect that our principal sources of funds will be cash generated from the Private Company Partners. 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 degree to which we are leveraged

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 could have important consequences for Shareholders including: (i) our ability to obtain additional financing for working capital or investments in the future may be limited; (ii) all or part of our cash flow from operations may be dedicated to the payment of the principal of and interest on 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 for dividend to Shareholders.

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 MD&A 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.

As a public company, we 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., 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. 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 such laws and regulations on their respective future operations.

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 are subject to fluctuations in currency

Certain of our distributions are paid and received by us in United States dollars. However, our dividends are paid to our Shareholders in Canadian dollars. Current, we have in place forward hedging contracts to manage the risk and economic consequences of foreign exchange fluctuations. However, the Canadian dollar relative to the United States dollar is subject to fluctuations and the forward contracts are for a limited period of time. There can be no guarantee that these contracts will continue to adequately protect against such fluctuations for the long term. As such, failure to adequately manage our foreign exchange could adversely affect our business, financial condition, and results of 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, 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. Alaris will also incur expenses as a public issuer. Should any estimate of such expenses prove inadequate or if unanticipated public issuer expenses are incurred, it would reduce cash available for payment of dividends. 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. Furthermore, the future treatment of dividends for tax purposes will be subject to the nature and composition of dividends paid by us and potential legislative and regulatory changes.

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 term 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.

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, and other factors.

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. 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 lawsuits, claims 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 MD&A, no material claims or litigation have been brought against Alaris.

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, particularly those 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, being LifeMark Health, LMS, Solowave, KMH, Killick and Quetico, 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 LifeMark Health

Government Regulation

Healthcare service providers in Canada are subject to various governmental regulation and licensing requirements. Unlike certain other healthcare industry segments, specifically pharmaceuticals, laboratory services and hospital management companies, LifeMark Health operates in markets that are not regulated. LifeMark Health does not require a special license or permit from any governmental body to operate, aside from the license required for the medical imaging business and those normally required for all businesses. All of LifeMark Health's medical personnel, both physicians and registered nurses, are required to maintain the requisite professional licenses from their respective governing professional bodies. Notwithstanding that LifeMark Health operates in markets that are not currently regulated, any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on the scope of LifeMark Health's activities.

Customer Concentration

LifeMark Health's revenue is dependent in part on contracts from certain governmental agencies. The loss of any such contract would have a significant adverse effect on LifeMark Health.

Confidentiality of Personal & Health Information

The collection, use and disclosure of patient personal and health information are subject to substantial regulation by the federal and, in most cases, provincial governments. These laws provide that an individual's consent is required prior to the collection, use and disclosure of information collected from them (with limited prescribed exceptions), that the collected information be protected with reasonable security measures and that the individual have access to the information so collected in order to ensure its accuracy. In addition, future legislation may affect the dissemination of health information that is not individually identifiable. Physicians and other persons providing patient information to LifeMark Health are also required to comply with these laws and regulations. If a client's privacy is violated or if LifeMark Health is found to have violated any law or regulation, it could be liable for damages or for criminal fines or penalties.

Risks Relating Specifically to LMS

Steel Pricing Risks

The world steel markets in which LMS operates can be extremely volatile and cyclical. Up to approximately 60% of LMS's variable costs can be attributed to the price of steel. A failure of LMS to anticipate and appropriately respond in a timely fashion to steel pricing trends in the purchasing and selling of steel products may have a material adverse effect on LMS's results.

Reinforcing steel products are typically sold by means of fixed price contracts, where the reinforcing steel is provided to the customer over a period of time which may range from several weeks to several years. At any point in time, therefore, LMS is contractually obligated to supply significant quantities of steel at a predetermined price. LMS does not hold inventory in quantities to match these obligations. The proportion of inventory to outstanding contractual obligations varies according to management's anticipation of steel pricing trends, but in any event, a material portion of the contractual obligations will always be exposed to future steel purchase pricing risk. If contractual obligations have to be fulfilled by steel purchased at higher costs, then LMS will incur lower realization on those contracts which will have an adverse effect on LMS's results.

LMS's other steel products are sold and shipped within a very short timeframe. These sales are often supported with large inventories of raw materials. During a period of falling prices for raw materials such as what occurred in late 2008, LMS would normally expect price realization on shipments of LMS's finished products to deteriorate, producing inferior returns during the period when older inventories are being sold.

General Economic Conditions Affecting LMS

Market events and conditions beginning in 2008, including disruptions in the international credit markets and other financial systems resulted in a deterioration of global economic conditions and had a negative effect on LMS' operations. Specifically, LMS experienced a dramatic shift in its business late in its fiscal 2008 year that included projects being cancelled and others being significantly delayed due to the unprecedented economic conditions that formed at that time. The end result was that LMS incurred material bad debt expenses for the first time in its operating history that

decreased its reported gross profit for 2008 and a significant drop in its gross profit in 2009. The decline was based on both reduced volumes caused by the economic environment and credit crisis as well as by temporarily depressed margins that were caused by high priced inventory that resulted from cancelled projects. As a result of these factors, LMS' distribution to Alaris in 2010 decreased. Since 2009, LMS' gross profits have continued to be impaired due to construction market conditions across Western Canada, Since 2011, LMS has seen sales volume steadily improve in all of its regions and has seen corresponding improvement in gross profit. However, challenging market conditions might continue to have a negative impact on LMS' business, financial condition, results of operation and cash flows and could have a material adverse effect on Alaris.

Supplier Base

LMS relies on key suppliers for the supply of raw materials. Disruption of any one supplier could have a material adverse effect on the ability of LMS to secure its supplies, as well as an increase in the cost of those supplies adversely affecting its financial results.

Labour Relations Risk

Approximately one-half of LMS's employees are unionized or governed by collective trade agreements. Although these agreements are with multiple union locals within diverse regions, a labour dispute with any union or employee association could adversely affect LMS' business.

Trade Policy Restrictions

LMS is a significant importer of commodity steel products that are sourced both domestically and globally. Steel is often the subject of cross border trade disputes. Any material dispute that is not resolved in LMS's favour could have a material adverse effect on LMS's results.

Risks Relating Specifically to Solowave Design

Customer Risk

Solowave's four largest customers represent approximately 78% of Solowave's revenues. Although Solowave has increased revenues from other customers in the last three years, these four customers continue to represent a large portion of Solowave's revenues. Should these four customers experience difficulties in fulfilling their financial obligations to Solowave, cease to do business with Solowave, or significantly reduce orders from Solowave, there could be a material adverse effect to Solowave's business, financial condition and cash flows, which could in turn have a material adverse effect on Alaris. Solowave has accounts receivable insurance in place to protect payments, but the insurance recovery process could take time to realize. In addition, should any of Solowave's major customers seek price reductions, additional financial incentives, or changes in sale terms, Solowave's business could be adversely affected.

International Operations Risk

Solowave sources certain component parts from Asia and assembles some of its goods in leased space in China. In addition, Solowave distributes a large number of its products through its distribution centre in Buffalo, New York, USA. These operations are subject to the risks normally associated with international operations, including but not limited to: currency conversion risks and currency fluctuations; political instability; civil unrest and economic instability; complications in complying with laws in several jurisdictions; changes in governmental policies; rising costs of raw materials; rising energy prices; blackouts due to energy shortages; transportation delays, interruptions and strikes; and the potential imposition of tariffs. Should Solowave's operations in China or the USA be impacted as a result, Solowave would need to shift additional business volumes to its Canadian manufacturing centre, which would

significantly increase transportation and manufacturing costs and possibly disrupt its business. Also, the imposition of trade sanctions by Canada, the USA or China against any of the products imported by Solowave could significantly increase Solowave's manufacturing costs.

Seasonal Business Risks

The majority of Solowave's back yard active play sets are shipped for delivery and sold by its customers between February and August. As such, any interruption to the shipment of product to Solowave's customers during its peak selling season can result in a permanent loss of sales revenue for both Solowave and its customers, as well as an increase in Solowave's inventory carrying costs. Both of these items could potentially adversely affect Solowave's financial condition. In addition, a failure by Solowave to properly manage its seasonal sales cycle could result in a temporary or permanent loss of orders from customers, a strain on Solowave's working capital or a shortage of labour, all of which would adversely affect Solowave's financial condition and operating results.

Natural or Other Disasters

The risk to Solowave's financial condition would depend on the severity of the damage caused; the length of time the affected operations were off-line; the length of time for Solowave to realize upon its insurance coverage; and the extent of damage covered by Solowave's business interruption insurance. A fire or other unforeseen disaster could interrupt Solowave's manufacturing or distribution operation, or cause damage to Solowave's inventory or equipment. Such disaster could adversely affect Solowave's financial condition and operating results.

Product Recall Risk

As a manufacturer of products that are used by children, Solowave is subject to strict product safety regulations and guidelines. A major product recall instituted either by the governing bodies or by Solowave, could adversely affect Solowave's financial condition; and could lead to a permanent loss of revenue.

Risks Relating Specifically to KMH

Customer Risk

Any cause that would reduce the affordability to pay for private healthcare will negatively affect KMH's volumes and revenue. A loss or reduction of personal income, due to continued unemployment in the U.S., and uncertain economic conditions, has a direct impact on the ability of U.S. citizens to pay for private insurance.

Medical Reimbursement Rates

KMH derives the majority of its revenue from public health insurance programs. Therefore, any major change in these programs would negatively impact KMH. The largest risk KMH faces in the U.S. is the fact that reimbursement rates are dictated by Medicare. If Medicare decides to cut these rates significantly, all issuers follow, leading to a substantial decrease in margins.

Referral Loss

KMH's revenue is dependent in part on referrals from centers that do not have in-house medical imaging capabilities. The loss of any of these referrals would have a significant adverse effect on KMH's business. Aside from a general decline in referrals, a complete loss of a referral channel could result if a private practice sells their practice to a local hospital that has its own internal imaging capabilities.

Supplier Base

KMH relies on key suppliers for the supply of isotopes. Isotopes are essential to conducting nuclear medicine diagnostic tests. The supply of isotopes can be affected by a number of factors, including, without limitation, an interruption of operations at any nuclear reactors around the world or increased regulation with respect to the production of nuclear power. If KMH loses its supply of isotopes, for even a short period of time, it could result in a significant decrease in nuclear tests conducted, affecting revenue.

Regulation

KMH operates in a strictly regulated industry. All KMH facilities are subject to scrutiny by the regulators and any failures to comply with set requirements could result in the loss of KMH's operating licenses. In addition, any change in governmental regulation and licensing requirements or interpretation and application of same relating to healthcare services could have an adverse impact on the scope of KMH's activities.

Foreign Exchange Rate Fluctuations

Though minimal, KMH is exposed to foreign exchange rate fluctuations from the U.S. operations thus decreasing income from U.S. operations if affected negatively by a USD to CDN dollar rate change.

Risks Relating Specifically to Killick

Government Regulation

The size and scope of the global maintenance, repair & overhaul market is determined largely by government regulatory requirements created to ensure the safety of the air traveling public. Any change in the governmental regulation and licensing requirements or interpretation and application of same relating to aircraft maintenance and service could have an adverse impact on the scope of Killick's operations and volumes.

New Product Risk

The threat of a new model of engine coming to market has the potential to significantly reduce the demand for the types of engines and parts that Killick services and supplies. However, an event can generally be predicted and planned for well in advance of the product arriving in the market.

Customer Bargaining Power Risk

In the market segment that Killick's CT Aerospace division participates, buyers are limited in number but large in size and industry influence. Buyers exercise increased power as the available options for sources of engine parts are often many. Participants in the market segment in turn work to distinguish themselves from the competition in an effort to win their business, making the market segment highly relational and service oriented. Losing favor with a buyer could result in an adverse impact on CT Aerospace's revenue.

General Economic Conditions

The growth of the MRO market is driven by two main factors: the growth of the worldwide aircraft fleet and the increased average age of the fleet as evidenced by cumulative number of flight hours. Economic factors negatively effecting demand and overall industry flight time could reduce the level of work for MRO operations.

Risks Relating Specifically to Quetico

Customer Risk

Quetico's largest customer represents approximately 70% of Quetico's revenues. Substantial decreases in product and servicing orders from this customer could adversely affect Quetico's business, financial condition and results from operations. Quetico's relationship with this customer is over two decades old and Quetico is integrated into the customer's inventory system, offering services that no other company currently provides. However, if the customer starts to see its sales volumes across North America decline or decides to use additional service providers, it may have a materially negative effect on Quetico's business, and therefore have a material effect on Alaris.

Operational Risk

Quetico has no formal agreements with any of its wholesale merchandise customers, except for in respect to licensing and royalty agreements. The Company conducts wholesale business with purchase orders from retailers, or brand owners, which indicate a future commitment or promise to take ownership of inventory at some time in the future. If at any point, a customer does not honour a purchase order commitment, Quetico will have inventory to sell to cover its financial position on the transaction. There can be no guarantee that this will be sold, particularly in a weak economy. In addition, carrying the additional inventory may cause a drain on Quetico's capital availability to fund new transactions.

Risks relating to all of our Private Company Partners, generally

In addition to the risks relating specifically to our material Private Company Partners (being LifeMark Health, LMS, Solowave, KMH, Killick and Quetico), there are several 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.

There is no publicly-available information concerning our Private Company Partners

There is generally no publicly available information regarding private businesses and the boards of directors and management of these companies are not subject to the same governance and disclosure requirements applicable to public companies. Therefore, we rely on our Management and consultants to investigate these businesses. There can be no assurance that our due diligence efforts will uncover all material information about the privately held businesses necessary to make fully informed decisions. 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, 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 the business cycle. Numerous factors may affect the quantum of a Private Company Partner's distribution obligations to Alaris, or the ability of a Private Company Partner to service such distribution obligations, including the failure to meet its business plan, a downturn in its industry or negative economic conditions. 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 us.

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 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.

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

Each of our Private Company Partners will continue to require additional working capital to conduct their existing marketing activities and to expand their businesses. Our Private Company Partners will need to raise additional funds through collaborations with corporate partners 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.

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 the amount of or their ability to service their obligations 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 their 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.

The franchisees that operate the franchises systems are independent owners. The franchisees are bound by the applicable franchise agreements to maintain certain standards and to operate within the franchise system. However, the franchisees are not directly under the control of the franchisors and may not in all cases comply with the requirements of the franchisors. The failure of a number of franchisees to comply with the franchise agreements or to maintain the standards of the franchisors may have an adverse effect on the applicable franchisor's brand and operating results.

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, growth opportunities, budgets, projected costs and plans and objectives of or involving the Corporation or the Partners. In particular, this MD&A contains forward looking statements regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses as well as the expected future performance of the Partners. Many of these statements can be identified by looking for words such as "believe", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof. There can be no assurance that the plans, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions and should not be read as guarantees or assurances of future performance. Accordingly, readers are cautioned not to place undue reliance on any forward looking information contained in this MD&A. Statements containing forward looking information reflect management's current beliefs and assumptions based on information in its possession on the date of this MD&A. Although management believes that the expectations represented in such forward looking statements are reasonable, there can be no assurance that such expectations will prove to be correct.

Statements containing forward-looking information by their nature involve numerous assumptions and significant known and unknown facts and uncertainties of both a general and a specific nature. The forward looking information contained herein are based on certain assumptions, including assumptions regarding the performance of the Canadian and U.S. economies in 2012 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 Private Company Partners to pay the distributions; and the performance of the Private Company Partners. 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; future sales of common shares by significant shareholders; ability to recover from the Partners for defaults under the various agreements with Alaris; potential conflicts of interest; dilution; and liquidity of Common Shares. The information contained in this MD&A, including the information set forth under "Risks and Uncertainty", identifies additional factors that could affect the operating results and performance of the Corporation. Without limitation of the foregoing assumptions and risk factors, the forward looking

statements in this MD&A regarding the revenues anticipated to be received from the Partners and the Corporation's general and administrative expenses are based on a number of assumptions including no adverse developments in the business and affairs of the Partners that would impair their ability to fulfill their payment obligations to the Corporation and no material changes to the business of the Corporation or current economic conditions that would result in an increase in general and administrative expenses.

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

Additional Information

Additional information relating to the Corporation, including the Corporation's Annual Information Form, is on available on SEDAR at www.sedar.com.

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