Unaudited Condensed Consolidated Interim

Financial Statements of

ALARIS EQUITY PARTNERS INCOME TRUST

For the three months ended March 31, 2021 and 2020

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of financial position (unaudited)

$ thousands	Note	31-Mar 2021	31-Dec 2020
Assets			
Cash and cash equivalents		$ 19,054	$ 16,498
Prepayments		195	177
Derivative contracts	9	1,666	1,489
Accounts receivables		607	804
Income taxes receivable		10,333	12,669
Promissory notes receivable	4	4,000	4,000
Current Assets		$ 35,855	$ 35,637
Promissory notes and other assets	4	32,479	19,233
Deposits	8	20,206	20,206
Property and equipment		775	846
Investments	4	1,048,538	880,512
Non-current assets		$ 1,101,998	$ 920,797
Total Assets		**$ 1,137,853**	**$ 956,434**
Liabilities			
Accounts payable and accrued liabilities	7	$ 8,076	$ 5,351
Distributions payable	5	13,938	12,089
Office Lease		618	659
Income tax payable		-	723
Current Liabilities		$ 22,632	$ 18,822
Deferred income taxes	8	17,236	16,112
Loans and borrowings	6	310,071	229,477
Convertible debenture		86,950	86,029
Other long-term liabilities	7	1,115	980
Non-current liabilities		$ 415,372	$ 332,598
Total Liabilities		**$ 438,004**	**$ 351,420**
Equity			
Unitholders' capital	5	$ 751,207	$ 659,988
Equity reserve		17,621	17,621
Translation reserve		7,339	12,431
Retained earnings / (deficit)		(76,318)	(85,026)
Total Equity		**$ 699,849**	**$ 605,014**
Total Liabilities and Equity		**$ 1,137,853**	**$ 956,434**

Commitments and contingencies	10
Subsequent events	4

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of comprehensive income / (loss) (unaudited)

$ thousands except per unit amounts	Note	Three months ended March 31 2021	Three months ended March 31 2020	Three months ended March 31 2021	Three months ended March 31 2020
Revenues, net of realized foreign exchange gain or loss	4	32,234	33,971	$ 32,234	$ 33,971
Net realized gain from investments	4	-	11,603	-	11,603
Net unrealized gain / (loss) of investments at fair value	4	5,534	(96,527)	5,534	(96,527)
Bad debt recovery	4	4,030	-	4,030	-
Total revenue and other operating income / (loss)		**$ 41,798**	**$ (50,953)**	**$ 41,798**	**$ (50,953)**
General and administrative		2,408	2,773	2,408	2,773
Transaction diligence costs		1,902	1,977	1,902	1,977
Unit-based compensation	7	1,530	743	1,530	743
Depreciation and amortization		75	77	75	77
Total operating expenses		5,915	5,570	5,915	5,570
Earnings / (loss) from operations		**35,883**	**(56,523)**	**$ 35,883**	**$ (56,523)**
Finance costs	6	5,621	4,754	5,621	4,754
Unrealized (gain) / loss on foreign exchange		1,845	(6,993)	1,845	(6,993)
Earnings / (loss) before taxes		**$ 28,417**	**$ (54,284)**	**$ 28,417**	**$ (54,284)**
Current income tax expense / (recovery)	8	4,490	(5,586)	4,490	(5,586)
Deferred income tax expense / (recovery)	8	1,281	(6,036)	1,281	(6,036)
Total income tax expense / (recovery)		5,771	(11,622)	5,771	(11,622)
Earnings / (loss)		**$ 22,646**	**$ (42,662)**	**$ 22,646**	**$ (42,662)**
Other comprehensive income / (loss)					
Foreign currency translation differences		(5,092)	29,501	(5,092)	29,501
Total comprehensive income / (loss)		**$ 17,554**	**$ (13,161)**	**$ 17,554**	**(13,161)**
Earnings / (loss) per unit					
Basic		$ 0.56	$ (1.16)	$ 0.56	$ (1.16)
Fully diluted		$ 0.55	$ (1.16)	$ 0.55	$ (1.16)
Weighted average units outstanding					
Basic	5	40,803	36,694	40,803	36,694
Fully Diluted	5	41,276	37,104	41,276	37,104

Alaris Equity Partners Income Trust

Condensed consolidated interim statement of changes in equity (unaudited)

For the three months ended March 31, 2020

$ thousands	Notes	Shareholders' Capital	Convertible Debenture	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2020		$ 625,313	$ 4,059	$ 14,763	$ 17,076	$ (56,764)	$ 604,447
Earnings for the period		-		-	-	(42,662)	(42,662)
Other comprehensive income / (loss)							
Foreign currency translation differences		-		-	29,501	-	29,501
Total comprehensive income / (loss) for the period		$ -	$ -	$ -	$ 29,501	$ (42,662)	$ (13,161)
Transactions with shareholders, recognized directly in equity							
Share-based compensation	7	$ -	$ -	$ 743	$ -	$ -	$ 743
Distributions to shareholders	5	-	-	-	-	(15,114)	(15,114)
Shares repurchased under the NCIB	5	(2,441)	-	-	-	-	(2,441)
Shares issued under RSU plan		163	-	(163)	-	-	-
Total transactions with Shareholders		$ (2,278)	$ -	$ 580	$ -	$ (15,114)	$ (16,812)
Balance at March 31, 2020		**$ 623,035**	**$ 4,059**	**$ 15,343**	**$ 46,577**	**$ (114,540)**	**$ 574,474**

Alaris Equity Partners Income Trust
Condensed consolidated interim statement of changes in equity (unaudited)
For the three months ended March 31, 2021

$ thousands	Notes	Unitholders' Capital	Equity Reserve	Translation Reserve	Retained Earnings / (Deficit)	Total Equity
Balance at January 1, 2021		$ 659,988	$ 17,621	$ 12,431	$ (85,026)	$ 605,014
Earnings / (loss) for the period		-	-	-	22,646	22,646
Other comprehensive loss						
Foreign currency translation differences		-	-	(5,092)	-	(5,092)
Total comprehensive income / (loss) for the period		$ -	$ -	$ (5,092)	$ 22,646	$ 17,554
Transactions with unitholders, recognized directly in equity						
Distributions to unitholders	5	$ -	$ -	$ -	$ (13,938)	$ (13,938)
Units issued under RTU plan	5	932	-	-	-	932
Units issued in the period by short form prospectus	5	94,550	-	-	-	94,550
Unit issuance costs	5	(4,263)	-	-	-	(4,263)
Total transactions with Unitholders		$ 91,219	$ -	$ -	$ (13,938)	$ 77,281
Balance at March 31, 2021		**$ 751,207**	**$ 17,621**	**$ 7,339**	**$ (76,318)**	**$ 699,849**

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of cash flows (unaudited)

$ thousands	Notes	Three months ended March 31 2021	2020
Cash flows from operating activities			
Earnings / (loss) for the period		$ 22,646	$ (42,662)
Adjustments for:			
Finance costs	6	5,621	4,754
Deferred income tax expense / (recovery)		1,281	(6,036)
Depreciation and amortization		75	77
Bad debt recovery	4	(4,030)	-
Net realized gain from investments	4	-	(11,603)
Net unrealized (gain) / loss of investments at fair value	4	(5,534)	96,527
Unrealized (gain) / loss on foreign exchange		1,845	(6,993)
Transaction diligence costs		1,902	1,977
Unit-based compensation	7	1,530	743
Changes in working capital:			
- accounts receivables		197	(683)
- income tax receivable / payable		1,456	(5,369)
- prepayments		(18)	(338)
- accounts payable, accrued liabilities		2,860	(1,046)
Cash generated from operating activities		$ 29,831	$ 29,348
Cash interest paid	6	(3,076)	(2,796)
Net cash from operating activities		$ 26,755	$ 26,552
Cash flows from investing activities			
Acquisition of investments	4	$ (174,062)	$ (4,941)
Transaction diligence costs		(1,902)	(1,977)
Proceeds from partner redemptions	4	-	111,306
Proceeds on disposal of assets and liabilities held for sale	4	-	38,491
Promissory notes and other assets issued	4	(9,556)	-
Promissory notes and other assets repaid	4	-	450
Net cash from / (used in) investing activities		$ (185,520)	$ 143,329
Cash flows from financing activities			
Repayment of loans and borrowings	6	$ (99,939)	$ (151,102)
Proceeds from loans and borrowings	6	185,453	7,903
Debt amendment and extension fees	6	(552)	-
Issuance of unitholders' capital, net of unit issue costs	5	90,287	-
Distributions paid	5	(12,089)	(15,142)
Trust unit repurchases	5	-	(2,441)
Office lease payments		(40)	(63)
Net cash from / (used in) financing activities		$ 163,120	$ (160,845)
Net increase in cash and cash equivalents		$ 4,355	$ 9,036
Impact of foreign exchange on cash balances		(1,799)	(1,769)
Cash and cash equivalents, Beginning of period		16,498	17,104
Cash and cash equivalents, End of period		$ 19,054	$ 24,371
Cash taxes paid / (received)		$ 3,049	$ (555)

1. Reporting entity:

Alaris Equity Partners Income Trust is an entity domiciled in Calgary, Alberta, Canada. The condensed consolidated interim financial statements as at and for the three months ended March 31, 2021 and 2020 are comprised of Alaris Equity Partners Income Trust and its subsidiaries (together referred to as "Alaris" or the "Trust"). The Trust's Canadian investments are made through a wholly-owned Canadian corporation, Alaris Equity Partners Inc. ("AEP", formerly known as Alaris Royalty Corp.) and its American investments are made through two Delaware corporations, Alaris Equity Partners USA Inc. ("Alaris USA") and Salaris USA Royalty Inc. ("Salaris USA"). The Trust's operations consist primarily of investments in private operating entities, typically in the form of preferred or common limited partnership interests, preferred or common interest in limited liability corporations in the United States, and loans receivable. The Trust also has a wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief").

On August 31, 2020, the shareholders approved a reorganization of Alaris Royalty Corp., as described in the Plan of Arrangement (the "Arrangement") dated July 21, 2020 and became effective on September 1, 2020, pursuant to which the Trust indirectly acquired all of the issued and outstanding common shares of Alaris Royalty Corp. in exchange for trust units of the Trust.

Prior to September 1, 2020, the consolidated financial statements were of Alaris Royalty Corp., which comprised Alaris Royalty Corp. and its subsidiaries, Alaris USA, Salaris USA and Alaris Cooperatief.

2. Statement of compliance:

(a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 and do not include all of the disclosures required for full annual financial statements and should be read in conjunction with the 2020 consolidated annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Trustees on May 6, 2021.

(b) Basis of measurement

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

- Investments classified as fair value through profit or loss ("Investments at Fair Value") are measured at fair value with changes in fair value recorded in earnings (see note 4).
- Derivative financial instruments are measured at fair value.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Significant judgments

A significant judgment relates to the consideration of control, joint control and significant influence in each of our investments. Through subsidiaries, the Trust has agreements with various private businesses to whom it invests capital into (collectively the "**Partners**") and these agreements include not only clauses as to distributions but also various protective rights. The Trust has assessed these rights under IFRS 10 and 11 and determined that consolidation is not appropriate as control does not exist. The Trust has also assessed the rights under IAS 28 and determined that significant influence does not exist. In a number of our investments we have protective rights, which provides the Trust the right to demand repayment of our investment if it is in default of the terms of our operating agreement. Failure to satisfy the demand for repayment can lead to the Trust's rights to allow it to control or significantly influence the investment.

Key estimates used in determining investments at fair value

Investments at fair value are measured using a discounted cash flow model. Significant assumptions used in the valuation of the preferred unit investments include the discount rate, terminal value growth rate and changes in future distributions. Significant assumptions used in the valuation of the common equity investments include the discount rate, terminal value growth rate and estimated future cash flows.

Key estimates used in the provision for expected credit losses

Management makes estimates of expected credit losses (ECLs) on its financial assets measured at amortized cost. ECL's are a probability weighted estimate of credit losses. Significant assumptions used in the determination of ECLs include the probability of future default, and the timing and amount of the collection of contractual cash flows. These assumptions are generally based on a combination of the relevant Partners' most recently available financial information and past performance, and information on security values.

Income taxes

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

COVID-19

For the period ended March 31, 2021, the Trust has used estimates and judgments related to the impact that the novel coronavirus disease 2019 ("COVID-19") has had and is expected to have on its Partners in the determination of key estimates and judgments. These estimates are based on the information available to the Trust to the date of the financial statements. The situation remains fluid and certain impacts to our Partner's businesses continue to remain unknown and may reasonably result in future adjustments to our fair value assumptions or expected credit losses within the next twelve months.

3. Significant accounting policies:

The accounting policies applied in these condensed consolidated interim financial statements are the same as those applied in the Trust's consolidated financial statements as at and for the year ended December 31, 2020.

4. Investments

The following table lists the Trust's investments at period end. For each period presented, all of the investments are recorded at fair value with the exception of the GWM loan receivable, which is recorded at amortized cost. Investments listed below are each denominated in their local currencies, other than LMS which includes a portion of its total that is in USD but translated into Canadian dollars using the period end exchange rates. The total United States investments in USD is also translated below into Canadian dollars using the period end exchange rates.

Investments at Fair Value & Amortized Cost *$ thousands*	**Carrying Value**		**Acquisition Cost**
As at	**31-Mar-21**	**31-Dec-20**	**31-Mar-21**
GWM Loan Receivable at amortized cost	US $ 85,500	US $ 85,500	US $ 85,500
GWM Holdings, Inc ("GWM")	16,700	15,400	15,500
Federal Resources Supply Company ("FED")	75,524	74,624	67,000
PF Growth Partners, LLC ("PFGP")	70,356	70,356	75,156
PFGP - Common Equity	15,144	15,144	17,344
Body Contour Centers, LLC ("BCC")	65,604	65,604	66,000
DNT Construction, LLC ("DNT")	60,443	60,443	62,800
Brown & Settle Investments, LLC ("Brown & Settle")	53,700	-	53,700
Brown & Settle - Common Equity	12,300	-	12,300
Accscient, LLC ("Accscient")	46,877	38,877	46,000
Falcon Master Holdings LLC ("FNC")	32,150	-	32,150
FNC - Common Equity	7,850	-	7,850
Edgewater Technical Associates, LLC ("Edgewater")	30,550	30,550	30,550
Edgewater - Common Equity	3,450	3,450	3,450
Kimco Holdings, LLC ("Kimco")	28,732	26,532	34,200
Unify Consulting, LLC ("Unify")	25,700	25,700	25,000
3E, LLC ("3E")	22,500	-	22,500
Carey Electric Contracting LLC ("Carey Electric")	16,100	16,100	16,100
Carey Electric - Common Equity	900	900	900
Heritage Restoration, LLC ("Heritage")	15,200	15,200	15,000
Fleet Advantage, LLC ("Fleet")	11,300	11,300	10,000
Stride Consulting LLC ("Stride")	6,000	6,000	6,000
ccCommunications LLC ("ccComm")	3,827	3,827	19,200
Total Investments (based in United States) - USD	US $ 706,407	US $ 565,507	US $ 724,200
Total Investments (based in United States) - CAD	$ 890,991	$ 722,887	$ 913,433
Lower Mainland Steel Limited Partnership ("LMS")	52,544	52,622	60,564
Amur Financial Group ("Amur")	50,000	50,000	50,000
Amur - Common Equity	20,500	20,500	20,000
SCR Mining and Tunneling, LP ("SCR")	34,503	34,503	40,000
Total Investments (based in Canada)	$ 157,547	$ 157,625	$ 170,564
Total Investments	**$ 1,048,538**	**$ 880,512**	**$ 1,083,997**

<u>Transactions closed in the three months ended March 31, 2021</u>

Investment in Falcon Master Holdings LLC ("FNC")

On January 7, 2021, Alaris made an initial contribution of US$40.0 million into FNC which consisted of US$32.2 million of preferred equity as well as an investment of US$7.8 million in exchange for a minority non-voting ownership of the common equity in FNC. The contribution in exchange for preferred units of US$32.2 million has initial annualized distributions to Alaris of US$4.5 million. The FNC distribution will be adjusted annually (commencing January 1, 2022) based on the change in FNC's gross profit, subject to a +/- 7% collar. Alaris is entitled to their ownership percentage of any common equity distributions declared.

Investment in Brown & Settle Investments, LLC and a subsidiary thereof (collectively, "Brown & Settle")

On February 9, 2021, Alaris made an initial contribution of US$66.0 million into Brown & Settle which consisted of US$53.7 million of a combination of subordinated debt and preferred equity as well as US$12.3 million in exchange for a minority non-voting ownership of the common equity in Brown & Settle. The contribution in exchange for subordinated debt and preferred equity of US$53.7 million has initial annualized distributions to Alaris of US$7.5 million. The Brown & Settle distribution will be adjusted annually (commencing January 1, 2022) based on the change in Brown & Settle's gross revenue, subject to a +/- 6% collar. Alaris is entitled to their ownership percentage of any common equity distributions declared.

Additional Investment in Accscient

On February 18, 2021, Alaris contributed an additional US$8.0 million into Accscient in exchange for initial annual distributions of US$1.1 million. Following this additional tranche, the total preferred units in Accscient are US$46.0 million.

Investment in 3E, LLC ("3E")

On February 22, 2021, Alaris made an initial contribution of US$30.0 million into 3E which consisted of US$22.5 million of preferred equity as well as US$7.5 million placed in an escrow account to be funded into additional preferred units in two additional tranches, once additional performance thresholds are met by 3E. Alaris is entitled to an initial annual distribution of US$3.2 million on the initial contribution of US$22.5 million. Each of the two additional tranches will also yield preferred distributions of 14%, once released from escrow. 3E will pay Alaris' interest expense on the escrowed funds until they are released in order to offset the borrowing cost to Alaris. The distribution from 3E will reset +/- 6% annually based on the change in gross profit, with the first reset commencing in January 2022.

<u>Transactions closed in the three months ended March 31, 2020</u>

Redemption of Sales Benchmark Index LLC ("SBI")

On January 7, 2020, SBI entered into a purchase and sale agreement with a third party pursuant to which SBI redeemed all of Alaris' outstanding US$75.0 million of preferred units. The gross proceeds on the redemption to Alaris were US$91.3 million, which consisted of US$84.3 million for the preferred units (inclusive of a US$9.3 million premium) as well as US$7.0 million of distributions for the amounts owed up to the third anniversary date of Alaris' initial investment, being August 31, 2020. These distributions were previously unaccrued and were therefore included as revenue in the year ended December 31, 2020. The gain on redemption had been previously recorded as increases to the investment at fair value over time; however, during the three months ended March 31, 2020 the Trust reclassified this gain from net unrealized gains and losses on investments at fair value to realized gain from investments.

Redemption of Sandbox Acquisitions, LLC and Sandbox Advertising LP (collectively, "Sandbox")

On February 28, 2020, Alaris exited its investment in Sandbox for total consideration of US$32.6 million. The proceeds from the Sandbox sale were used to repay outstanding debt and accrued interest owed to Alaris of US$21.9 million, to pay US$1.5 million of accrued distributions owed to Alaris and US$5.1 million to redeem all of the outstanding preferred units. Also included in the total proceeds of US$32.6 million is US$4.1 million to remain in escrow to cover working capital adjustments and indemnity obligations, which, if released, is expected to be paid out over a period of 24 months. Alaris may also receive up to an additional US$2.0 million pursuant to an earnout if certain financial performance criteria are satisfied. Due to the uncertainty regarding the escrow and earnout amounts have not been recorded on the balance sheet and will only be recorded once received.

Revenues, expenses and net earnings from Sandbox in the interim period up to the closing date of February 28, 2020, did not have a material impact on Alaris' statement of comprehensive income.

PFGP Additional Contribution

On March 13, 2020, Alaris made an additional US$3.5 million contribution to PFGP in exchange for an additional US$2.8 million of preferred units and US$0.7 million of a minority interest of the common equity in PFGP. The contribution was part of a total commitment of US$8.0 million to be used as part of expansion into new markets. Following this contribution of US$3.5 million and US$1.0 million in December 2019, the remaining commitment to be funded to PFGP is US$3.5 million. Timing of future funding is unknown at this time.

Assumptions used in fair value calculations:

Alaris recognizes that the determination of the fair value of its investments at fair value becomes more judgmental the longer the investments are held. The price Alaris pays for its investments is fair value at the time of acquisition. Typically, the risk profile and future cash flows expected from the individual investments change over time. Alaris' valuation model incorporates these factors each reporting period. Alaris typically estimates the fair value of the investments in preferred unit investments by calculating the discounted cash flow of the future distributions for preferred equity and debt instruments carried at fair value. Alaris estimates the fair value of its common equity investments using discounted cash flows of the underlying business. Key assumptions used in the valuation of the preferred unit investments include the discount rate, terminal value growth rate and estimates relating to changes in future distributions. Key assumptions used in the valuation of the common equity investments include the discount rate, terminal value growth rate and estimated future cash flows. Alaris also considers the maximum repurchase price outlined in the respective partnership agreement in all fair value adjustments of investments.

For each individual Partner, Alaris considered a number of different discount rate factors including what industry they operate in, the size of the entity, 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 the Trust's publicly traded units and of other similar public companies. Cash flows have been discounted at rates ranging from 12.5% - 19.5%.

These assumptions will be refined each reporting period as new information is obtained and may continue to require future adjustment to the fair value of the investments. All assumptions made at March 31, 2021 are based on the information available to the Trust as of the date of these financial statements. Refer to Note 10 for additional information, including sensitivity analyses to these inputs.

Distributions:

The Trust recorded distribution revenue, interest and realized gain/losses on foreign exchange contracts as follows:

Partner Distributions:	Three months ended March 31	
$ thousands	2021	2020
GWM	$ 3,846	$ 2,020
FED	3,518	3,653
DNT	3,448	3,775
BCC	2,850	2,159
LMS	2,116	1,765
Accscient	1,981	1,869
Amur	1,522	1,623
Kimco	1,486	-
Edgewater	1,354	-
FNC	1,318	-
FNC Common Equity	383	-
Brown & Settle	1,308	-
PFGP	1,267	2,696
Unify	1,081	1,090
SCR	1,050	950
Carey Electric	767	-
Heritage	747	829
Fleet	498	498
3E	404	-
Stride	266	282
ccComm	-	294
SBI	-	9,176
Providence	-	514
Total Distributions	$ 31,210	$ 33,193
Interest	572	700
Realized gain / (loss) on derivative contracts	452	78
Revenues, net of realized foreign exchange gain or loss	**$ 32,234**	**$ 33,971**

The total revenues, net of realized foreign exchange gain or loss, includes the total distributions received and accrued from Partners, interest income received and accrued from Partners on outstanding promissory notes and the realized gain or loss on derivative contracts.

Promissory Notes and Other Assets:

As part of being a long-term partner with the entities Alaris holds preferred interests in, from time to time Alaris has offered alternative financing solutions to assist with short-term needs of the individual businesses. Should there be an adverse event to any of the below businesses, the timing and amounts collected could be negatively impacted.

The differences between the carrying value and face value is due to the timing and uncertainty surrounding the collection of cash flows. Alaris will continue to pursue recovery of the full face value for all outstanding promissory notes and other assets. The addition in the three months ended March 31, 2021, relates to an amount placed in escrow with 3E, which will either be transferred to investments as additional units of preferred equity or returned to Alaris. This will depend on 3E meeting certain financial performance thresholds. Below is a summary of changes in promissory notes and other assets for the three months ended March 31, 2021.

Reconciliation of Promissory Notes and Other Assets *($ thousands)*	**Three months ended**
	31-Mar-21
Face Value - Opening	$ 27,162
Opening provision for credit losses	(3,929)
Carrying value as at beginning of period	**$ 23,233**
Additions	9,556
Bad debt recovery	4,030
Foreign exchange	(340)
Carrying value as at end of period	**$ 36,479**
Promissory notes & other assets - current	$ 4,000
Promissory notes & other assets - non-current	$ 32,479
Check	-

Alaris has the following promissory notes and other assets outstanding as of March 31, 2021:

Promissory Notes and Other Assets	**Note**	**Carrying Value**	
($ thousands)		*31-Mar-21*	*31-Dec-20*
Lower Mainland Steel	*(1)*	$ 4,000	$ 4,000
Kimco - long-term accounts receivable	*(2)*	5,613	2,326
Kimco	*(3)*	17,406	16,907
3E	*(4)*	9,460	-
Balance		**$ 36,479**	**$ 23,233**

(1) - unsecured short-term note bearing interest of 12% per annum, due on demand. Subsequent to March 31, 2021, an additional $1 million was repaid.

(2) - unpaid distributions reclassified to a non-interest bearing long-term accounts receivable in 2016. Subsequent to March 31, 2021, US$2 million of the long-term accounts receivable was repaid.

(3) - unsecured long-term promissory notes with notional amounts of US$7.8 million (bearing interest at 8% per annum) and US$6.0 million (bearing interest at 12% per annum). Subsequent to March 31, 2021, US$2 million of the long-term promissory notes was repaid.

(4) - cash held by 3E in escrow, to be converted to Investments upon reaching specific performance thresholds, which is expected to be determined over the next 12 to 24 months. Escrowed cash of US$7.5 million bears interest equal to interest expense paid by Alaris, which is an annualized rate of 3.8%.

The expected credit loss model classifies Alaris' outstanding promissory notes and other assets in three stages based on their credit quality. Stage 1 represents the lowest credit risk and stage 3 represents loans that are credit impaired. As at March 31, 2021 the Trust had $36.5 million (December 31, 2020 - $20.9 million) of promissory notes and other assets classified as stage 1 and $nil classified as stage 3 (December 31, 2020 - $2.3 million). There was a transfer of $2.3 million from Stage 3 to Stage 1, as well as a bad debt recovery of $4.0 million, during the three months ended March 31, 2021. The transfer between stages and the bad debt recovery is due to the reduced risk of credit losses on the Kimco – long-term accounts receivable and the Kimco promissory notes. The Kimco – long-term accounts receivable and the Kimco promissory notes are recorded at their original face value as at March 31, 2021 due to this transfer between stages and the associated lower credit risk. The cumulative total credit loss provision as at March 31, 2021 is $nil (December 31, 2020 - $3.9 million).

5. Unitholders' capital:

The Trust has authorized, issued and outstanding, 44,962,316 voting units as at March 31, 2021 (December 31, 2020 – 38,996,399).

Issued Trust Units	Number of Units	Amount ($)
	thousands	*$ thousands*
Balance at January 1, 2020	36,709	$ 625,313
Trust units issued by short form prospectus	3,347	46,014
Short form prospectus costs	-	(2,639)
RTUs vested	97	1,351
Shares repurchased under the NCIB	(1,157)	(10,051)
Balance at December 31, 2020	38,996	$ 659,988
Trust units issued by short form prospectus	5,909	94,550
Short form prospectus costs	-	(4,263)
RTUs vested	57	932
Balance at March 31, 2021	**44,962**	**$ 751,207**

Outlined below are the weighted average units outstanding for the three months ended March 31, 2021 and 2020, respectively.

Weighted Average Units Outstanding	Three months ended March 31	
thousands	2021	2020
Weighted average units outstanding, basic	40,803	36,694
Effect of outstanding RTUs	473	410
Weighted average units outstanding, fully diluted	41,276	37,104

There were 984,019 and 1,433,866 options excluded from the calculation as they were anti-dilutive at March 31, 2021 and 2020, respectively.

Distributions

For the three months ended March 31, 2021, the Trust declared a quarterly distribution of $0.31 per unit, paid on April 15, 2021, totaling $13.9 million in aggregate (2020 - $0.4125 per unit and $15.1 million).

Normal Course Issuer Bid

On March 20, 2020, the Trust announced that it had received approval from the Toronto Stock Exchange ("TSX") to establish a normal course issuer bid ("NCIB") program. Under the NCIB, the Trust may purchase for cancellation up to 3,473,720 trust units (formerly, common shares). The NCIB represented approximately 10% of the Trust's public float of its issued and outstanding shares as at March 19, 2020. The NCIB commenced on March 24, 2020 and remained in effect until March 23, 2021. As of March 31, 2021, the NCIB has expired. There were no additional units repurchased under this program during the three months ended March 31, 2021.

Unit Offering

In March 2021, Alaris completed a bought deal short-form prospectus offering, with the total trust units being issued of 5,909,375 at a price of $16.00 per unit, for aggregate gross proceeds of $94.6 million. After deduction of the underwriters' fees and expenses of the offering, net proceeds to Alaris were $90.3 million.

6. Loans and borrowings:

As at March 31, 2021, AEP has a $400 million credit facility with a syndicate of Canadian chartered banks, which has a maturity date in November 2023 and is secured by a general security agreement on all of Alaris' assets. The interest rate is based on a combination of the CAD Prime Rate ("Prime"), Bankers' Acceptances ("BA"), US Base Rate ("USBR") and LIBOR. Alaris realized a blended interest rate of 3.8% (inclusive of standby fees) for the three months ended March 31, 2021.

At March 31, 2021, AEP had US$245.3 million and $3.0 million ($312.3 million) drawn on its credit facility (December 31, 2020 – US$180.3 million and $1.0 million, total of $231.4 million). The amount recorded in the Trust's statement of financial position of $310.1 million is reduced by the unamortized debt amendment and extension fees of $2.2 million.

At March 31, 2021, AEP met all of its covenants as required under the credit facility. Those covenants include a maximum funded debt to contracted EBITDA of 3.0:1, which can be increased to 3.5:1 for up to 90 days, until September 30, 2021 (actual ratio is 2.51x at March 31, 2021); minimum tangible net worth of $450.0 million (actual amount is $699.8 million at March 31, 2021); and a minimum fixed charge coverage ratio of 1:1 (actual ratio is 1.14x at March 31, 2021). The fixed charge coverage ratio at March 31, 2021 is calculated using proforma distributions, in accordance with AEP's credit amendment in June 2020.

During the three months ended March 31, 2021, Alaris completed an amendment to its credit facility with its senior lenders. The amendment increased the base of the credit facility from $330 million to $400 million that included the addition of a seventh bank to the lending syndicate. The amendment also increased the maximum funded debt to contracted EBITDA covenant under certain circumstances for the March 2021 and June 2021 measurement periods, from 3.0x to 3.5x for those two periods. Covenants return to previous levels from September 30, 2021 onwards, as outlined above.

7. Unit-based payments:

The Trust has a Restricted Trust Unit Plan ("RTU Plan") and a Unit Option Plan as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Directors to grant awards of Restricted Trust Units ("RTUs") and Unit Options ("Options") subject to a maximum of ten percent of the issued and outstanding units of the Trust.

The RTU Plan will settle in voting trust units which may be issued from treasury or purchased on the Toronto Stock Exchange. The Trust has reserved 910,232 and issued 472,700 RTUs to management and Directors as of March 31, 2021. The RTUs issued to directors (99,286) vest over a three-year period. The RTUs issued to management (373,414) are a combination of time vested units (214,293) and performance vested units (159,121). The time vested units do not vest until the end of a three-year period (73,725 in 2021, 17,484 in 2022, 67,300 in 2023 and 55,784 in 2024). The performance vested units vest one third every year (24,751 in 2021, 56,153 in 2022, 50,325 in 2023 and 27,892 in 2024) and are subject to certain performance conditions relating to book value per unit. The unit-based compensation expense relating to the RTU Plan is based on the unit price of the Alaris units at March 31, 2021 and based on the remaining time left until vesting for each tranche of units. As at March 31, 2021, the total liability related to the RTU and Option Plan is $2.8 million, $2.1 million of which is included in Accounts payable and accrued liabilities and $0.7 million in Other long-term liabilities.

The Trust has reserved and issued 984,019 options as of March 31, 2021. The options outstanding at March 31, 2021, have an exercise price in the range of $20.60 to $22.78, a weighted average exercise price of $21.70 (2020 – $21.70) and a weighted average contractual life of 1.15 years (2020 – 1.39 years).

8. **Income taxes:**

Beginning in 2015, the Trust began receiving notices of reassessment (the "Reassessments") from the Canada Revenue Agency (the "CRA") in respect of its 2009 through 2020 taxation years to deny the use of non-capital losses, accumulated scientific research and experimental development expenditures and investment tax credits. Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and utilization of $9.1 million in investment tax credits ("ITCs") by the Trust were denied, resulting in reassessed taxes and interest of approximately $57.7 million (2020 - $55.6 million).

Subsequent to filing the original notice of objection for the July 14, 2009 taxation year, Alaris received an additional proposal from the CRA proposing to apply the general anti avoidance rule to deny the use of these deductions. The proposal does not impact the Trust's previously disclosed assessment of the total potential tax liability (including interest) or the deposits required to be paid in order to dispute the CRA's reassessments.

The Trust has received legal advice that it should be entitled to deduct the non-capital losses and claim ITCs and as such, the Trust remains of the opinion that all tax filings to date were filed correctly and that it will be successful in appealing such Reassessments. The Trust intends to continue to vigorously defend its tax filing position. In order to do that, the Trust was required to pay 50% of the reassessed amounts as a deposit to the Canada Revenue Agency. The Trust has paid a total of $20.2 million (2020 - $20.2 million) in deposits to the CRA relating to the Reassessments to date. The Trust has been reassessed with respect to ITCs of $1.5 million in 2020, that will be paid subsequent to this quarter and may be reassessed for an additional $1.0 million.

The Trust anticipates that legal proceedings through the CRA and the courts will take considerable time to resolve and the payment of the deposits, and any taxes, interest or penalties owing will not materially impact the Trust's payout ratio. The Trust firmly believes it will be successful in defending its position and therefore, any current or future deposit paid to the CRA would be refunded, plus interest.

9. **Fair Value of Financial Instruments:**

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

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

The following items shown on the condensed consolidated interim statement of financial position as at March 31, 2021 and December 31, 2020, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates, terminal value growth rates, changes in future distributions from each investment and estimated future cash flows are the primary inputs in the fair value models and are generally unobservable. Accordingly, these fair value measures are classified as level 3. There were no transfers between level 2 or level 3 classified assets and liabilities during the three months ended March 31, 2021.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
31-Mar-21				
Derivative contracts	$ -	$ 1,666	$ -	$ 1,666
Investments	-	-	1,048,538	1,048,538
Total at March 31, 2021	**$ -**	**$ 1,666**	**$ 1,048,538**	**$ 1,050,204**
31-Dec-20	**Level 1**	**Level 2**	**Level 3**	**Total**
Derivative contracts	$ -	$ 1,489	$ -	$ 1,489
Investments	-	-	880,512	880,512
Total at December 31, 2020	**$ -**	**$ 1,489**	**$ 880,512**	**$ 882,001**

The Trust purchases forward exchange rate contracts to match between 75% and 90% of quarterly distributions and expenses in Canadian dollars on a rolling 12-month basis and also a portion of the expected costs on a rolling 12 to 24 month basis. The notional value of outstanding foreign exchange contracts is US$37.8 million as at March 31, 2021 (US$37.5 million as at December 31, 2020). The interest rate swap was initiated in Q3 2019 and it expires in November 2021. The interest rate swap allows for a fixed interest rate of 1.50% in replace of LIBOR on $50.0 million notional amount of USD debt.

The total position of the forward exchange rate contracts and the interest rate swap is included above and in the statement of financial position as Derivative Contracts.

The most significant assumptions in the calculation of fair value of Level 3 Investments are the discount rate, terminal value growth rates, changes in future distributions and estimated future cash flows.

As outlined in Note 4, cash flows have been discounted at rates ranging from 12.5% to 19.5%. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at March 31, 2021 would decrease by $57.0 million and increase by $67.6 million. If the terminal value growth rate increased (decreased) by 1%, the fair value of Level 3 investments would increase by $48.1 million and decrease by $40.5 million. For the preferred unit investments, if future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $9.9 million and decrease by $9.3 million. For the common equity investments, if the estimated future cash flows increased (decreased) by 1%, the fair value of the common equity investments would increase by $10.5 million and decrease by $8.3 million.

10. Commitments and Contingencies:

Alaris has a commitment of up to an additional US$25.0 million to BCC to fund when specified financial metrics are achieved. Timing of this additional contribution is expected to be within the next twelve months.

Alaris also has a commitment to an additional US$3.5 million to PFGP (an additional US$2.8 million of preferred equity and US$0.7 million of common equity, terms consistent with the two existing classes). Timing of the additional funding is unknown at this time.

Subsequent to closing of the sale of Sandbox in February of 2020, AEP received a direct claim and protest notice (the "Notices") from the purchasers of Sandbox for amounts under the indemnification and working capital adjustment provisions. In September 2020, the purchaser served AEP with a complaint (the "Complaint"), which advances claims centered upon the assertions contained in the Notices that were previously disclosed. That is, the Complaint alleges that AEP and certain of its representatives breached some of the representations and warranties of the purchase and sale agreement and in so doing committed fraud. The Complaint also asserts that AEP breached the purchase and sale agreement when it took the position that certain issues related to a working capital adjustment were not appropriate for arbitration. The Complaint alleges damages of approximately US$37.2 million. AEP and the Trust believe the claims within the Complaint are without merit and intends to vigorously defend the case. To this end, AEP and the Trust filed Motions to Dismiss the purchasers' claims of fraud and their claim seeking arbitration regarding the working capital adjustment. AEP and the Trust has not moved to dismiss certain narrower contract breach claims. The Trust is also actively evaluating the possibility of lodging counterclaims in the matter.

Based upon its knowledge of the facts of the pre-closing of Sandbox, the sale process and other advice obtained to date, no liability has been recorded in the financial statements.