Unaudited Condensed Consolidated Interim

Financial Statements of

ALARIS EQUITY PARTNERS INCOME TRUST

For the three months ended March 31, 2023 and 2022

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of financial position (unaudited)

$ thousands	Note	31-Mar 2023	31-Dec 2022
Assets			
Cash		$ 24,938	$ 60,193
Derivative contracts	9	1,341	2,507
Accounts receivable and prepayments		3,384	2,689
Income taxes receivable		15,192	22,675
Current Assets		$ 44,855	$ 88,064
Property and equipment		449	485
Other long-term assets	8,9	33,818	33,395
Investments	4	1,220,033	1,248,159
Non-current assets		$ 1,254,300	$ 1,282,039
Total Assets		**$ 1,299,155**	**$ 1,370,103**
Liabilities			
Accounts payable and accrued liabilities	7,10	$ 18,404	$ 11,517
Distributions payable	5	15,463	15,395
Derivative contracts	9	2,159	2,818
Office Lease		317	352
Income tax payable		159	306
Current Liabilities		$ 36,502	$ 30,388
Deferred income taxes	8	69,812	67,386
Loans and borrowings	6	142,457	216,077
Convertible debenture		94,476	93,446
Senior unsecured debenture		62,733	62,613
Other long-term liabilities	8,9	975	1,938
Non-current liabilities		$ 370,453	$ 441,460
Total Liabilities		**$ 406,955**	**$ 471,848**
Equity			
Unitholders' capital	5	$ 760,595	$ 757,220
Translation reserve		51,871	51,391
Retained earnings		79,734	89,644
Total Equity		**$ 892,200**	**$ 898,255**
Total Liabilities and Equity		**$ 1,299,155**	**$ 1,370,103**
Commitments and contingencies	8,10		
Subsequent events	10,11		

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of comprehensive income (unaudited)

		Three months ended March 31	
$ thousands except per unit amounts	Note	**2023**	**2022**
Revenues, including realized foreign exchange gain	4	$ 36,688	$ 39,564
Net realized gain from investments	4	12,500	-
Net unrealized gain / (loss) on investments at fair value	4	(11,678)	10,028
Total revenue and other operating income		**$ 37,510**	**$ 49,592**
General and administrative	10	16,960	3,487
Transaction diligence costs		1,351	908
Unit-based compensation	7	1,779	1,877
Depreciation and amortization		56	53
Total operating expenses		20,146	6,325
Earnings from operations		**$ 17,364**	**$ 43,267**
Finance costs	6	6,517	6,466
Net unrealized (gain) / loss on derivative contracts	9	381	(2,060)
Foreign exchange loss		215	4,169
Earnings before taxes		**$ 10,251**	**$ 34,692**
Current income tax expense	8	2,228	1,554
Deferred income tax expense	8	2,470	5,733
Total income tax expense		4,698	7,287
Earnings		**$ 5,553**	**$ 27,405**
Other comprehensive income			
Foreign currency translation differences		480	(13,225)
Total comprehensive income		**$ 6,033**	**$ 14,180**
Earnings per unit			
Basic		$ 0.12	$ 0.61
Fully diluted		$ 0.12	$ 0.59
Weighted average units outstanding			
Basic	5	45,308	45,161
Fully Diluted	5	45,791	49,657

Alaris Equity Partners Income Trust
Condensed consolidated interim statement of changes in equity (unaudited)
For the three months ended March 31, 2023

$ thousands, except for number of units (000's)	Notes	Units Outstanding	Unitholders' Capital	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2023		45,281	$ 757,220	$ 51,391	$ 89,644	$ 898,255
Earnings for the period		-	-	-	5,553	5,553
Other comprehensive income						
Foreign currency translation differences		-	-	480	-	480
Total comprehensive income for the period		-	$ -	$ 480	$ 5,553	$ 6,033
Transactions with unitholders, recognized directly in equity						
Distributions to unitholders	5	-	$ -	$ -	$ (15,463)	$ (15,463)
Units issued under RTU plan	5	198	3,375	-	-	3,375
Total transactions with Unitholders		198	$ 3,375	$ -	$ (15,463)	$ (12,088)
Balance at March 31, 2023		**45,479**	**$ 760,595**	**$ 51,871**	**$ 79,734**	**$ 892,200**

Alaris Equity Partners Income Trust

Condensed consolidated interim statement of changes in equity (unaudited)

For the three months ended March 31, 2022

$ thousands, except for number of units (000's)	Notes	Units Outstanding	Unitholders' Capital	Translation Reserve	Retained Earnings	Total Equity
Balance at January 1, 2022		45,149	$ 754,622	$ 15,052	$ 19,185	$ 788,859
Earnings for the period		-	-	-	27,405	27,405
Other comprehensive income						
Foreign currency translation differences		-	-	(13,225)	-	(13,225)
Total comprehensive income / (loss) for the period		-	$ -	$ (13,225)	$ 27,405	$ 14,180
Transactions with unitholders, recognized directly in equity						
Distributions to unitholders	5	-	$ -	$ -	$ (14,937)	$ (14,937)
Units issued under RTU plan	5	113	2,270	-	-	2,270
Total transactions with Unitholders		113	$ 2,270	$ -	$ (14,937)	$ (12,667)
Balance at March 31, 2022		**45,262**	**$ 756,892**	**$ 1,827**	**$ 31,653**	**$ 790,372**

Alaris Equity Partners Income Trust

Condensed consolidated interim statements of cash flows (unaudited)

		Three months ended March 31	
$ thousands	Notes	**2023**	**2022**
Cash flows from operating activities			
Earnings for the period		$ 5,553	$ 27,405
Adjustments for:			
Finance costs	6	6,517	6,466
Deferred income tax expense		2,470	5,733
Depreciation and amortization		56	53
Net realized gain from investments	4	(12,500)	-
Net unrealized (gain) / loss of investments at fair value	4	11,678	(10,028)
Unrealized (gain) / loss on derivative contracts	9	381	(2,060)
Unrealized foreign exchange loss		221	5,019
Transaction diligence costs		1,351	908
Unit-based compensation	7	1,779	1,877
Cash from operations, prior to changes in working capital		$ 17,506	$ 35,373
Changes in working capital:			
Accounts receivable and prepayments		(784)	(1,780)
Income tax receivable / payable		7,292	791
Other long-term assets	8,9	(990)	-
Accounts payable, accrued liabilities	10	6,491	(2,775)
Cash generated from operating activities		$ 29,515	$ 31,609
Cash interest paid	6	(3,774)	(3,865)
Net cash from operating activities		$ 25,741	$ 27,744
Cash flows from investing activities			
Acquisition of investments	4	-	$ (82,316)
Transaction diligence costs		(1,351)	(908)
Proceeds from partner redemptions	4	28,930	1,263
Net cash from / (used in) investing activities		$ 27,579	$ (81,961)
Cash flows from financing activities			
Repayment of loans and borrowings	6	$ (73,197)	$ (58,912)
Proceeds from loans and borrowings	6	-	73,473
Proceeds from senior unsecured debenture, net of fees		-	62,192
Distributions paid	5	(15,395)	(14,899)
Office lease payments		(35)	(38)
Net cash from / (used in) financing activities		$ (88,627)	$ 61,816
Net increase / (decrease) in cash		$ (35,307)	$ 7,599
Impact of foreign exchange on cash balances		52	(2,657)
Cash, Beginning of period		60,193	18,447
Cash, End of period		$ 24,938	$ 23,389
Cash taxes paid / (received)		$ (5,132)	$ 352

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, 2023 and 2022 are composed of Alaris Equity Partners Income Trust and its subsidiaries (collectively 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"), Salaris USA Royalty Inc. ("Salaris USA") and their subsidiaries. The Trust's operations consist 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. In the year ended December 31, 2022 the Trust's wholly-owned subsidiary in the Netherlands, Alaris Cooperatief U.A. ("Alaris Cooperatief") was liquidated.

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 2022 consolidated annual financial statements.

These condensed consolidated interim financial statements were approved by the Board of Trustees on May 9, 2023.

(b) Basis of measurement

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

- 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 consolidated financial statements are presented in Canadian dollars which is the Trust and AEP's functional currency. Alaris USA Inc., Salaris USA, and Alaris Cooperatief have the United States dollar as its 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 or capitalized cash flow. 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, cash flow multiple and estimated future cash flows.

Income taxes

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

3. Significant accounting policies:

The accounting policies 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, 2022.

4. Investments

The following table lists the Trust's investments at March 31, 2023 and December 31, 2022. 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-23**	**31-Dec-22**	**31-Mar-23**
Body Contour Centers, LLC ("BCC")	US $ 145,000	US $ 165,303	US $ 145,000
Ohana Growth Partners, LLC ("PFGP") **Note 1**	98,029	99,329	94,629
Accscient, LLC ("Accscient")	75,777	77,277	72,000
D&M Leasing ("D&M")	71,800	71,800	74,500
DNT Construction, LLC ("DNT")	63,143	63,943	62,800
Brown & Settle Investments, LLC ("Brown & Settle")	64,494	63,894	66,394
GWM Loan Receivable at amortized cost	62,678	62,678	62,946
GWM Holdings, Inc ("GWM")	16,699	16,699	43,054
Fleet Advantage, LLC ("Fleet")	49,000	45,000	28,000
3E, LLC ("3E")	40,000	40,000	39,500
Edgewater Technical Associates, LLC ("Edgewater")	34,600	34,600	34,000
Sagamore Plumbing and Heating, LLC ("Sagamore")	24,000	24,000	24,000
Heritage Restoration, LLC ("Heritage")	20,000	20,000	18,500
Carey Electric Contracting LLC ("Carey Electric")	13,680	14,680	14,000
Unify Consulting, LLC ("Unify")	12,228	12,628	11,000
Stride Consulting LLC ("Stride")	4,000	4,000	4,500
Total Investments (based in United States) - USD	795,128	815,831	794,823
Total Preferred and Debt (based in United States) - USD	702,761	724,864	699,536
Total Common (based in United States) - USD	92,367	90,967	95,287
Total Investments (based in United States) - CAD	**$ 1,076,998**	**$ 1,105,124**	**$ 1,076,588**
Amur Financial Group ("Amur")	72,200	72,200	70,000
Lower Mainland Steel Limited Partnership ("LMS")	42,232	42,232	60,564
SCR Mining and Tunneling, LP ("SCR")	28,603	28,603	40,000
Total Investments (based in Canada)	**$ 143,035**	**$ 143,035**	**$ 170,564**
Total Preferred and Debt (based in Canada)	123,235	123,235	150,564
Total Common (based in Canada)	19,800	19,800	20,000
Total Investments Pref/Debt	**1,075,122**	**1,105,135**	**1,098,086**
Total Investments Common	**144,911**	**143,024**	**149,066**
Total Investments	**$ 1,220,033**	**$ 1,248,159**	**$ 1,247,152**

Note 1 -Formerly known as PF Growth Partners, LLC ("PFGP")

Transactions closed in the three months ended March 31, 2023

Partner	Date	Investment / Redemption	Investment Type	Contribution / (Proceeds)	Annualized Distributions
Carey Electric	4-Jan-23	Redemption - Partial	Preferred	US ($ 1,000)	US ($ 143)
BCC	14-Feb-23	Net Redemption - Partial	Preferred	US ($ 20,303)	US ($ 7,411)

On February 14, 2023, Alaris completed a strategic transaction involving BCC and co-sponsor Brookfield, through its Special Investment program. The transaction included exchanging US$145.0 million of its existing preferred units in BCC for newly issued convertible preferred units and receiving cash proceeds of US$20.3 million for the redemption of its remaining existing preferred units which had an initial cost basis of US$156.0 million, resulting in a US$9.3 million realized gain.

The new convertible preferred units are entitled to an 8.5% distribution payable in cash or in-kind, and are convertible at the option of the holder, for a period of up to five years, into common equity of BCC at a predetermined valuation. These units also participate in any common distribution paid above 8.5%. As with all our common distributions these amounts are paid when declared as cashflow permits. In addition, Alaris will be entitled to an annual transaction fee of US$1.5 million payable quarterly.

Alaris is entitled to receive an over allocation of profits relative to the approximate US$400 million of convertible preferred units not held by Alaris if certain return-based performance thresholds are achieved. This over allocation of profits allows Alaris to receive a higher portion of distributions if the following thresholds are met with respect to the convertible preferred units; the greater of 12.5% net internal rate of return and 1.80x multiple on invested capital, and a second hurdle with further additional sharing above the greater of net 18% internal rate of return and a 2.50x multiple on invested capital. As of period end, these hurdles have not been met.

Transactions closed in the three months ended March 31, 2022

Partner	Date	Investment / Redemption	Investment Type	Contribution / (Proceeds)	Annualized Distributions
Carey Electric	5-Jan-22	Redemption - Partial	Preferred	US ($ 1,000)	US ($ 150)
BCC	11-Mar-22	Investment - Follow-on	Preferred	US $ 65,000	US $ 8,450

Assumptions used in fair value calculations:

Alaris recognizes that the determination of the fair value of its investments 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 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 or capitalized 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, cash flow multiple 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 and cash flow multiple 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 other similar public companies. Cash flows have been discounted at rates ranging from 12.1% - 23.8%.

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, 2023 are based on the information available to the Trust as of the date of these financial statements. Refer to Note 9 for additional information, including sensitivity analyses to these inputs.

Revenues:

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

Total Revenues:	**Three months ended March 31**	
$ thousands	**2023**	**2022**
Preferred Equity and Debt Investment Distributions	$ 36,863	$ 37,527
Common Equity Investments Distributions	936	1,365
Total Distributions	$ 37,799	$ 38,892
Interest	-	321
Realized gain / (loss) on derivative contracts	(1,111)	351
Revenues, including realized foreign exchange gain	**$ 36,688**	**$ 39,564**

5. Unitholders' capital:

The Trust is authorized to issue an unlimited number of trust units. At March 31, 2023, the number of units issued and outstanding is 45,479,179 (December 31, 2022 – 45,280,685).

Issued Trust Units	**Number of Units**	**Amount ($)**
	thousands	*$ thousands*
Balance at January 1, 2022	45,149	$ 754,622
RTUs vested	132	2,598
Balance at December 31, 2022	45,281	757,220
RTUs vested	198	3,375
Balance at March 31, 2023	**45,479**	**$ 760,595**

Outlined below are the weighted average units outstanding for the three ended March 31, 2023 and 2022, respectively.

Weighted Average Units Outstanding	**Three months ended March 31**	
thousands	**2023**	**2022**
Weighted average units outstanding, basic	45,308	45,161
Effect of outstanding convertible debentures	-	4,124
Effect of outstanding RTUs	483	372
Weighted average units outstanding, fully diluted	45,791	49,657

Distributions

For the three months ended March 31, 2023, the Trust declared a quarterly distribution of $0.34 per unit, paid on April 17, 2023, totaling $15.5 million in aggregate (2022 - $0.33 per unit and $14.9 million).

6. Loans and borrowings:

As at March 31, 2023, AEP has a $450 million credit facility with a syndicate of Canadian chartered banks, which has a maturity date in September 2026 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 SOFR. Alaris realized an annualized blended interest rate of 6.7% (inclusive of standby fees) for the three months ended March 31, 2023.

At March 31, 2023, AEP had US$107.3 million (CA$145.3 million) drawn on its credit facility (December 31, 2022 – US$161.8 million or CA$219.1 million). The amount recorded in the Trust's statement of financial position of $142.5 million (December 31, 2022 – $216.1 million) is reduced by the unamortized debt amendment and extension fees of $2.8 million (December 31, 2022 – $3.0 million).

At March 31, 2023, AEP met all of its covenants as required under the credit facility. Those covenants include a maximum funded debt to contracted EBITDA of 2.5:1, which can be increased to 3.0:1 for up to 90 days (actual ratio is 1.18x at March 31, 2023); minimum fixed charge coverage ratio of 1:1 (actual ratio is 2.13x at March 31, 2023); and a minimum tangible net worth of $550.0 million (actual amount is $892.2 million at March 31, 2023).

7. Unit-based payments:

The Trust has a Restricted Trust Unit Plan ("RTU Plan") as approved by shareholders at a special shareholders meeting on July 31, 2008 that authorizes the Board of Trustees to grant awards of Restricted Trust Units ("RTUs") subject to a maximum of 2.5% 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 1,136,979 and issued 483,036 RTUs to management and Trustees as of March 31, 2023. The RTUs issued to Trustees (91,785) vest over a three-year period. The RTUs issued to management (391,251) are a combination of time vested units (190,719) and performance vested units (200,532). The time vested units do not vest until the end of a three-year period (47,092 in 2024, 46,272 in 2025 and 97,355 in 2026). The performance vested units vest one third every year (87,684 in 2024, 64,136 in 2025 and 48,712 in 2026) 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, 2023 and based on the remaining time left until vesting for each tranche of units. At March 31, 2023, the total liability related to the RTU is $2.1 million, $1.4 million of which is included in Accounts payable and accrued liabilities and $0.7 million in Other long-term liabilities.

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 ("SRED") and investment tax credits ("ITCs"). Pursuant to the Reassessments, the deduction of approximately $121.2 million of non-capital losses and SRED expenditures and utilization of $9.9 million in ITCs by the Trust were denied, resulting in reassessed taxes and interest of approximately $61 million (2022 - $61 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.

At the time the relevant transactions were completed, the Trust received legal advice that it should be entitled to deduct the non-capital losses and SRED expenditures and claim ITCs. Based on ongoing discussions with its legal counsel, 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 and to the Alberta Treasury for amounts reassessed for the 2013 taxation year and onwards. The Trust has paid a total of $25 million (2022 - $25 million) in deposits to the CRA and Alberta Treasury relating to the Reassessments to date. These deposits have been recorded on the statement of financial position and are included in Other long-term assets.

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 and Alberta Treasury would be refunded, plus interest.

Should the Trust be unsuccessful, it will be required to pay the remaining reassessed taxes and interest and will not recover the $25.0 million in deposits paid to March 31, 2023.

Alaris has entered into insurance contracts to mitigate the risk presented by the above-noted matter, although there can be no assurance that all the amounts for which Alaris may ultimately be liable will be fully covered. The premiums in respect of the insurance contracts are fully paid and will be amortized on a straight-line basis over the term of the insurance contracts.

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, 2023 and December 31, 2022, are measured at fair value on a recurring basis using level 2 or level 3 inputs. Discount rates, terminal value growth rates, cash flow multiples, 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, 2023.

Fair value classification *($ thousands)*	**Level 1**	**Level 2**	**Level 3**	**Total**
31-Mar-23				
Current and non-current derivative contract assets	$ -	$ 2,063	$ -	$ 2,063
Current and non-current derivative contract liabilities	-	(2,477)	-	(2,477)
Investments	-	-	1,220,033	1,220,033
Total at March 31, 2023	**$ -**	**($ 414)**	**$ 1,220,033**	**$ 1,219,619**
31-Dec-22	**Level 1**	**Level 2**	**Level 3**	**Total**
Current and non-current derivative contract assets	$ -	$ 3,474	$ -	$ 3,474
Current and non-current derivative contract liabilities	-	(3,508)	-	(3,508)
Investments	-	-	1,248,159	1,248,159
Total at December 31, 2022	**$ -**	**($ 34)**	**$ 1,248,159**	**$ 1,248,125**

9. Fair value of financial instruments (continued)

The Trust purchases forward exchange rate contracts to match a portion of the 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$58.0 million as at March 31, 2023 (US$58.1 million as at December 31, 2022). At March 31, 2023, Alaris holds three interest rate swap contracts. There is an interest rate swap that allows for a fixed interest rate of 0.35% instead of SOFR ("Secured Overnight Financing Rate") on US$25.0 million of debt, and an interest rate swap that allows for a fixed interest rate of 0.74% instead of SOFR on US$50.0 million of debt, both with an expiry in June 2023. Alaris also has an interest rate swap that allows for a fixed interest rate of 2.99% instead of SOFR on US$50.0 million of debt that begins in July 2023 and that has an expiry date in July 2026.

Forward exchange rate contracts and the interest rate swaps included in the above table are presented on the statement of financial position as current or non-current based on the derivatives expected recognition or the contractual maturity. Current amounts are presented as Derivative contract assets or liabilities and non-current amounts are included in Other long-term assets or liabilities.

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

As outlined in Note 4, cash flows have been discounted at rates ranging from 12.1% - 23.8%. If the discount rate increased (decreased) by 1%, the fair value of Level 3 investments at March 31, 2023 would decrease by $79.3 million and increase by $93.7 million. If the terminal value growth rate increased (decreased) by 1%, the fair value of Level 3 investments would increase by $49.0 million and decrease by $41.3 million. For the preferred unit investments, if changes in future distributions increased (decreased) by 1% the fair value of Level 3 investments would increase by $8.1 million and decrease by $8.2 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 $3.1 million and decrease by $3.0 million. For the common equity investments, if the cash flow multiples increased (decreased) by 1%, the fair value of the common equity investments would increase by $1.3 million and decrease by $1.3 million.

Below is a summary of changes for all level 3 financial instruments for the period ended March 31, 2023 and December 31, 2022:

Investments at fair value *($ thousands)*	**Total**
Carrying value at January 1, 2022	$ 1,185,327
Additions	155,884
Redemptions	(161,838)
Fair Value Adjustment	2,075
Foreign Exchange	66,711
Carrying value at December 31, 2022	$ 1,248,159
Additions	-
Redemptions	(28,930)
Fair Value Adjustment	813
Foreign Exchange	(9)
Carrying value at March 31, 2023	$ 1,220,033

10. Commitments and Contingencies:

Alaris has a commitment to an additional contribution of US$1.4 million to PFGP, timing of the additional funding is unknown at this time as the commitment requires certain conditions to be met.

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, among other things, that AEP and certain of its representatives breached some of the representations and warranties of the purchase and sale agreement ("purchase 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. The Complaint has progressed to the discovery stage and AEP has filed a counterclaim against the purchasers of Sandbox.

Subsequent to the current quarter, Alaris entered into settlement discussions and the parties have agreed to the core terms and are working on an agreement to finalize the settlement. While AEP and the Trust believe they would have ultimately prevailed in the litigation, given the inherent risks associated with the process, and its protracted nature and associated costs, the decision was made to proceed with settlement discussions. As a result, the impact of the estimated settlement has been reflected in the current periods profit and loss and accrued for in working capital. Details of the estimate are not disclosed as it would significantly prejudice Alaris' position.

11. Subsequent events:

Investment in Federal Management Partners, LLC ("FMP")

On April 27, 2023, Alaris contributed an initial investment of US$36.5 million to FMP inclusive of US$30.5 million of preferred equity and a US$6.0 million minority common equity investment. The contribution of preferred equity is in exchange for preferred distributions at an annualized yield of 14%. The distribution from FMP will reset +/- 7% annually based on the percent change of gross revenue, with the first reset commencing January 1, 2024. Based on certain financial hurdles, there is a second tranche of US$3.5 million available to be invested in FMP upon achievement of these hurdles. If FMP achieves these financial hurdles the second tranche will consist entirely of additional preferred equity and will have the same yield and rights as the initial FMP preferred contribution.