DIVERSIFIED ROYALTY CORP.

Management's Discussion and Analysis

August 7, 2015

The following is management's discussion and analysis ("MD&A") in respect of the results of operations of Diversified Royalty Corp. ("DIV" or the "Company") for the three and six months ended June 30, 2015 and should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2015. The financial statements of the Company are presented in Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS"). Additional information related to the Company including its Annual Information Form dated March 25, 2015 for the fiscal year ended December 31, 2014 is available on SEDAR at www.sedar.com.

CORPORATE UPDATE

The Company's corporate strategy is to acquire top-line royalty streams from a number of growing multi-location businesses and franchisors.

Franworks Acquisition

On September 26, 2014, consistent with its corporate strategy, the Company completed a transaction (the "Franworks Acquisition") with Franworks Franchise Corp. ("Franworks") whereby it indirectly acquired an approximate $12 million annual top-line royalty for a purchase price of $108.8 million. Management determined that the royalty acquisition from Franworks was a platform transaction for DIV and the first step in DIV's current business strategy to acquire top-line royalty streams from a number of growing multi-location businesses and franchisors.

Calgary-based Franworks is one of the fastest growing mid-tier casual dining groups in Canada. On June 30, 2015, Franworks had a total of 89 restaurants, including 63 Original Joe's, 14 State & Main and 12 Elephant & Castle restaurants in operation, located in Western Canada (77), Ontario (6) and the United States (6, all Elephant & Castle). Approximately 40% of the restaurants are wholly owned and operated by Franworks and 60% are franchised locations (65% of which are joint ventures with Franworks). Franworks restaurants had total gross sales of approximately $228.5 million for the twelve months ended June 30, 2015 and employed approximately 3,500 people.

As part of the Franworks Acquisition, the Company indirectly acquired all of the Canadian and US trademarks and other intellectual property rights related to the Original Joe's, State & Main and Elephant & Castle restaurant businesses (the "FW Rights") from a wholly owned subsidiary (the "FW Subsidiary") of Franworks. The FW Rights include all registered and unregistered trademarks (including service marks, logos, brand names, trade dress and pending applications for registration) used in connection with the aforementioned restaurant businesses and all intellectual property used in connection with such businesses (including trade secrets, patented technology, proprietary databases, domain names, know-how and show-how, recipes and uniform standard, methods, procedures and specifications regarding the establishment and operation of the restaurants operated under the aforementioned brands). Pursuant to a licence and royalty agreement dated September 26, 2014, the Company, through its subsidiary FW Royalties Limited Partnership (the "FW Partnership"), licensed the FW Rights to the FW Subsidiary for the payment of a royalty equal to 6% of the gross sales of 61 Original Joe's, 12 Elephant & Castle and 9 State & Main restaurants in existence on June 30, 2015 that were opened prior to September 30, 2013.

The Company and Franworks announced that effective April 1, 2015, the Franworks royalty pool (the "Franworks Royalty Pool") had been adjusted to include the royalties from five new restaurants opened across Canada and to remove one restaurant in the US that had been permanently closed. With the adjustment for these five openings and one closure, the Franworks Royalty Pool now includes 82 restaurants. For further information, see "Five New Restaurants Added to the Franworks Royalty Pool" below.

The trailing twelve month gross sales for the restaurants in the Franworks Royalty Pool as at June 30, 2015 were $209.7 million. This includes $2.7 million of make-whole system sales related to the closure of one restaurant and renovations which were underway at three restaurants.

$34.5 Million Bought Deal Financing

On November 12, 2014, the Company issued 14,375,000 common shares at a price of $2.40 per common share for gross proceeds of $34.5 million (the "November 2014 Offering") in connection with an underwriting agreement (the "2014 Underwriting Agreement") dated October 20, 2014, between the Company and a syndicate of underwriters (the "2014 Underwriters"). The November 2014 Offering includes the full exercise of an over-allotment option by the 2014 Underwriters, under which the 2014 Underwriters purchased an aggregate of 1,875,000 common shares at a price of $2.40 per common share. The Company intended to use the net proceeds from the November 2014 Offering to fund future acquisitions of additional top-line royalties from other multi-location businesses and franchisors and for general corporate purposes. Consistent with this intention, the Company used the majority of the net proceeds from the November 2014 Offering to complete the Sutton Acquisition (as defined below). For further details, see "Sutton Acquisition" and "Use of Proceeds from the November 2014 Offering" below.

FIVE NEW RESTAURANTS ADDED TO THE FRANWORKS ROYALTY POOL

Effective April 1, 2015, the Franworks Royalty Pool was adjusted to include the royalties from five new restaurants opened across Canada and to remove one restaurant in the US that had been permanently closed. With the adjustment for these five openings and one closure, the Franworks Royalty Pool now includes 82 restaurants.

The estimated gross sales for the 2015 calendar year for the five new restaurants added to the Franworks Royalty Pool is $13.5 million and the gross sales for the permanently closed restaurant was $3.5 million. Consequently, the estimated annual gross sales for the net new restaurants added to the Franworks Royalty Pool is $10.0 million for the 2015 calendar year. Based on the 6% royalty payable by Franworks restaurants on gross sales, it is estimated that the net new restaurants will generate additional royalty revenue for the Company of approximately $0.6 million per annum.

The initial consideration for the estimated net additional royalty revenue is $4,938,000, representing 80% of the total estimated consideration of $6,173,000 payable to the FW Subsidiary for such additional royalty revenue. The adjustment for net additional royalty revenue added to the Franworks Royalty Pool is designed to be accretive to DIV shareholders, as the consideration paid to the FW Subsidiary is calculated using a 7.5% discount of the estimated net royalty revenue added to the Franworks Royalty Pool. The consideration is paid in the form of DIV shares on the basis of the 20-day volume weighted average closing price of DIV's shares for the period ending March 25, 2015. Based on a weighted average closing price of $2.69 per share, the initial consideration payable for the net additional royalty revenue was paid to the FW Subsidiary in the form of 1,835,728 DIV shares which were issued on April 1, 2015.

The remaining consideration payable for net additional royalty revenue will be paid to the FW Subsidiary on April 1, 2016, the next adjustment date, and will be adjusted to reflect the actual gross sales of the five new restaurants for the year ended December 31, 2015, as determined through an audit of the gross sales of the five new restaurants in the Franworks Royalty Pool.

As a result of the adjustment to the Franworks Royalty Pool, Franworks indirectly owned 10,827,915 DIV shares, representing 15.4%, of DIV's issued and outstanding common shares, on a non-diluted basis as of April 1, 2015, the date this adjustment was completed. Franworks, through the FW Subsidiary, subsequently sold 1,835,728 DIV common shares and currently indirectly owns 8,992,187 (12.8%) of DIV's issued and outstanding common shares.

Sutton Acquisition

On June 19, 2015, the Company completed its second royalty acquisition (the "Sutton Acquisition"), whereby it indirectly acquired, through SGRS Royalties Limited Partnership (the "Sutton Partnership") (an entity controlled by the Company), all of the Canadian and U.S. trademarks and certain other intellectual property rights utilized by Sutton Group Realty Services Ltd. ("Sutton") in its residential real estate franchise business (the "Sutton Rights") for a purchase price of $30.6 million. Immediately following the closing of the Sutton Acquisition, DIV, through the Sutton Partnership, licenced the Sutton Rights back to Sutton for 99 years in exchange for an initial royalty payment of approximately $3.5 million per annum. Pursuant to the terms of the Sutton Licence and Royalty Agreement dated June 19, 2015 between the Sutton Partnership and Sutton (the "Sutton Licence and Royalty Agreement"), the royalty is calculated by multiplying a determined number of agents (the "Sutton Royalty Pool", initially set at 5,185 agents) by an agreed royalty fee (the "Sutton Royalty Rate"), currently set at $56.25 per agent per month. In addition to the royalty, Sutton will pay the Company a management fee of approximately $100,000 per year for strategic and other services.

With the successful closing of the Transaction, DIV's annual dividend will increase from $0.1884 per share to $0.20 per share (a 6% increase) effective August 31, 2015.

Mr. Lube Trademark Acquisition and Royalty and $110 million Bought Deal Financing

On July 23, 2015, the Company announced its third trademark and royalty acquisition. The Company has entered into an agreement with Mr. Lube Canada Limited Partnership ("Mr. Lube") to acquire, through its subsidiary ML Royalties Limited Partnership ("ML LP") (an entity controlled by the Company), the trademarks and certain other intellectual property rights utilized by Mr Lube in its business of franchising automotive maintenance businesses (the "Mr Lube Marks") for $138.8 million (the "Mr. Lube Acquisition"). Immediately following the closing of the Mr. Lube Acquisition, ML LP will license the Mr. Lube Marks back to Mr Lube for 99 years, in exchange for an initial royalty payment of approximately $12.4 million per annum (the "Royalty" and together with the Mr. Lube Acquisition, the "Transaction"). In addition to the Royalty, Mr. Lube will pay DIV a management fee of approximately $200,000 per year for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the license and royalty agreement.

In connection with the Mr. Lube Acquisition, the Company has entered into an agreement with a syndicate of investment dealers led by Cormark Securities Inc. (the "Underwriters") pursuant to which the Underwriters have agreed to purchase for resale to the public on a bought deal basis 40,741,000 subscription receipts of the Corporation (the "Subscription Receipts"), at a price of $2.70 per Subscription Receipt for gross proceeds of $110,000,700 (the "Offering"). In addition, the Company has granted the Underwriters an option (the "Over-Allotment Option") to purchase up to an additional 6,111,150 Subscription Receipts (or, in certain circumstances, common shares of the Company) at the price of $2.70 per Subscription Receipt exercisable in whole or in party at any time until the earlier of (i) 30 days following the closing of the Offering, and (ii) the termination of the Mr. Lube Acquisition. Upon completion of certain release conditions, including, among others, obtaining all necessary corporate and regulatory approvals as well as satisfaction of all conditions precedent to the Mr. Lube Acquisition, the Subscription Receipts will be exchanged for Common Shares of the Company on a one-for-one basis.

The total net proceeds from the sale of the Subscription Receipts under this Offering are estimated to be approximately $103,660,665 (or approximately $119,335,765 if the Over-Allotment Option is exercised in full) after deducting the Underwriters' Fees of $5,500,035 (or $6,325,040 if the Over-Allotment Option is exercised in full) and the expenses of the Offering, estimated at $840,000.

The Company intends to use the net proceeds of the Offering to partially fund the acquisition of the Mr. Lube Marks and, if the Over-Allotment Option is exercised in whole or in part, for future acquisitions and general corporate purposes. The remainder of the cash consideration payable to Mr. Lube upon completion of the Mr. Lube Acquisition will be satisfied through a $34.4 million term loan (net of $0.2 million of deferred financing fees) and approximately $850,000 in cash on hand. At least 50% of the debt provided under the ML LP Debt Financing will have a fixed interest rate (currently estimated at 3.55%) while the remainder can be a floating interest rate (currently estimated to be the BA rate plus 2.5%).

Subject to completion of the Transaction, DIV's board of directors has approved an increase in DIV's annual dividend from $0.20 per share (after factoring in the above noted increase in the annual dividend from $0.1884 which takes effect August 31, 2015 related to the Sutton Acquisition) to $0.2225 per share effective October 31, 2015 (assuming the Transaction completes in August 2015).

Completion of the Transaction is subject to a number of conditions, including approval of the TSX, completion of the senior credit facility, completion of the Offering as well as other conditions customary for a transaction of this nature.

Closing of the Offering and the Transaction is expected to occur on or about August 18, 2015 and is subject to regulatory approval, including that of the TSX.

Use of Proceeds from the November 2014 Offering

In the Corporation's final short form prospectus dated October 31, 2014 for the November 2014 Offering, the Corporation disclosed that the total net proceeds from the sale of common shares under the November 2014 Offering was estimated to be $32,360,000 (inclusive of estimated net proceeds of $4,274,500 related to the full exercise of the over-allotment option for that offering).

The table below compares the estimated and actual use of proceeds from the November 2014 Offering for the specific uses identified in the final prospectus for the November 2014 Offering:

Item	Estimated Use of Proceeds (Cdn)	Actual Use of Proceeds (Cdn)	Variance (Cdn)
Equity proceeds used for the completion of future royalty acquisitions and general corporate purposes	$32,360,000	$25,639,588[1]	$6,720,412[1]
TOTAL	**$32,360,000**	**$25,639,588**[1]	**$6,720,412**[1]

(1) The Corporation used $24,299,995 of the net proceeds from the November 2014 Offering to partially finance a portion of the cash consideration payable to Sutton upon completion of the Sutton Acquisition. The remainder of the net proceeds from the November 2014 Offering have been used by the Corporation for general corporate purposes, other than approximately $6,720,412 which remains available for use by the Corporation for future royalty acquisitions and general corporate purposes.

OUTLOOK

The Company continues to pursue and evaluate additional royalty stream acquisitions from multi-location businesses and franchisors. As of the date hereof, the Company has no probable future acquisitions and there can be no assurance that the Company will be able to identify and make further acquisitions that satisfy the Company's business objectives or strategy.

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 Company has with respect to its royalty streams, and such statements are subject to the risks and assumptions identified for the

Company in this MD&A. Readers are cautioned that the information may not be appropriate for other purposes. See also "Forward Looking Information" below.

SUMMARY OF QUARTERLY RESULTS

The following table discloses certain unaudited financial data for the eight most recently completed quarters.

	2015		2014				2013	
(000's except per share amounts)	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	$ 3,535	$ 2,916	$ 3,078	$ 169	$ -	$ -	$ -	$ -
Net income (loss)	$ 680	$ 1,190	$ 1,433	$ 8,433	$(2,054)	$ (389)	$ (523)	$ (867)
Earnings (loss) per common share								
Basic	0.01	$ 0.02	$ 0.02	$ 0.21	$ (0.05)	$ (0.01)	$ (0.01)	$ (0.02)
Diluted	0.01	$ 0.02	$ 0.02	$ 0.21	$ (0.05)	$ (0.01)	$ (0.01)	$ (0.02)

Revenue

As the Franworks Acquisition closed on September 26, 2014, Q3 2014 had five days of royalty revenue totalling $0.17 million and Q4 2014 marked the first full quarter with royalty revenue for the Company totalling $3.1 million, including a make-whole payment of $6,000. During Q1 2015, the Company generated $2.9 million in royalty revenue, which included approximately $100,000 from four make-whole payments. During Q2 2015, the Company generated $3.5 million in revenue, which included $3.5 million in royalty income ($3.4 million from Franworks, which included approximately $55,000 from three make-whole payments, and approximately $117,000 from the Sutton for the 12 day period from the completion of the Sutton Acquisition on June 19, 2015 to June 30, 2015) along with approximately $3,000 in management fees from Sutton. There was no revenue generated from the period Q3 2013 through Q2 2014 as the Company had shut down its only operating facility in St. Ambroise, Quebec and had not yet completed the Franworks Acquisition.

Net Income

Subsequent to Q2 2013 the Company achieved significant cost reductions in operating and administrative expenses due to the sale of the St. Ambroise facility in Quebec. However, during Q3 2013, these cost reductions were offset by increases in legal fees relating to the John Bennett litigation and stock based compensation. In Q2 and Q3 2014, the Company incurred significant costs, with respect to the due diligence and legal fees related to the acquisition agreement with Franworks, fighting the proxy battle with Difference Capital Financial Inc. and preparing the information circular for the shareholder vote on the Franworks Acquisition; this resulted in a significant operating loss for the Company in these quarters, before the deferred income tax recovery in Q3 2014, which resulted in net income for that quarter.

In Q4 2014, the Company had its first full quarter of royalty income, incurred increased legal fees related to the John Bennett litigation and generated net income of $1.4 million.

In Q1 2015, the Company's royalty income fell approximately 5% from Q4 2014 due to seasonal factors. Legal fees related to the John Bennett litigation decreased 32% from the fourth quarter of 2014, and the Company generated net income of $1.2 million.

In Q2 2015, the Company's revenue increased approximately 21% from Q1 2015. Rising sales from Franworks accounted for growth of 17% quarter over quarter (+12% from new store roll-ins and 5% from seasonal factors), with the contribution from Sutton adding 4% to revenues. Litigation expenses increased by $520,123 from the first quarter of 2015 primarily related to the John Bennett litigation. In Q2 2015, the Company generated net income of $0.7 million.

FINANCIAL HIGHLIGHTS

The table below sets out selected unaudited information from the financial statements of Diversified Royalty Corp. together with other data and should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the periods ended June 30, 2015 and 2014. The financial information in the tables included in this MD&A are reported in accordance with IFRS unless otherwise noted.

(000's except per share amounts)	Q2 2015	Q2 2014	Year ended 2014	Year ended 2013	Year ended 2012
Franworks :					
Restaurants in the Royalty Pool	82	n / a	78	n / a	n / a
Gross sales reported by Franworks restaurants while in the Royalty pool	$ 56,963	n / a	$ 54,117	n / a	n / a
Royalty Income [1]	$ 3,418	n / a	$ 3,247	n / a	n / a
SSSG [2]	-0.4%	n / a	1.1%	n / a	n / a
Sutton:					
Number of agents in the Royalty Pool	5,185	n / a	n / a	n / a	n / a
Royalty Income & Management Fees [3]	$ 120	n / a	n / a	n / a	n / a
Consolidated:					
Revenue	$ 3,538	$ -	$ 3,247	$ -	$ 28,299
Royalty income	$ 3,538	n / a	$ 3,247	n / a	n / a
Normalized EBITDA [4]	$ 3,091	$ (713)	n / a	n / a	n / a
Distributable cash [4]	$ 2,893	$ (512)	n / a	n / a	n / a
Income (loss) from operations	$ 1,804	$ (2,255)	$ (2,758)	$ (4,668)	$ 8,019
Net Income (loss)	$ 680	$ (2,055)	$ 7,422	$ (3,586)	$ 9,300
Dividends paid	$ 3,314	n / a	$ 2,153	n / a	n / a
Basic earnings (loss) per share	$ 0.01	$ (0.05)	$ 0.17	$ (0.09)	$ 0.24
Diluted earnings (loss) per share	$ 0.01	$ (0.05)	$ 0.17	$ (0.09)	$ 0.24
Distributable cash flow per share [4]	$ 0.04	$ (0.01)	n / a	n /a	n /a
Dividend per share	$ 0.05	n / a	$ 0.03	n /a	n /a
Total assets	$ 163,707	$68,208	$ 155,216	$ 69,542	$ 73,975
Total non-current financial liabilities	$ 21,545	$ 550	$ 15,325	$ 574	$ 659

Notes:

(000's except per share amounts)

[1] Royalty income includes approximately $55 in make-whole payments for Q2/15 related to three restaurants where renovations were underway.

[2] SSSG - Same store sales growth, or comparable period sales growth against the same base of stores. SSSG across the entire Franworks system was -0.2%.

[3] The Sutton Acquisition closed on June 19, 2015. As such, the monthly royalty payment and management fees were pro-rated for 12 days. Royalty income from Sutton for the 12 day period amounted to $117 while the total management fees for the same period was $3.

[4] Normalized EBITDA, Distributable Cash, and Distributable Cash Flow per share are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, see "Description of Distributable Cash" and "Non-IFRS Measures and Additional IFRS Measures" in this MD&A
As Q2 2015 marked the third full quarter since the Franworks Acquisition was completed on September 26, 2014, Distributable Cash and Normalized EBITDA have only been presented for Q2 2015 and the comparable period of 2014.

KEY ATTRIBUTES OF THE COMPANY

The key feature of the Company's royalty revenue is that it is based on: (i) top-line, gross sales of Franworks restaurants in the Franworks Royalty Pool (not on the profitability of either Franworks or individual restaurants in the Franworks Royalty Pool) and (ii) the number of agents in the Sutton Royalty Pool and the Sutton Royalty Rate for those agents in the Sutton Royalty Pool. The Company's ongoing expenses are general and administrative (including public company costs), professional fees, and interest on non-amortizing debt. Unusual expenses primarily relate to the John Bennett litigation, which the Company hopes to have settled in 2016. Thus, the success of the Company currently depends primarily on the ability of Franworks to maintain and increase the gross sales of the Franworks restaurants in the Franworks Royalty Pool and pay the royalty, along with Sutton maintaining and increasing the number of agents in the Sutton Royalty Pool and paying the royalty due on those agents.

Franworks:

For Franworks, increases in gross sales are derived from both same store sales growth ("SSSG") from existing restaurants in the Franworks Royalty Pool and from the addition of new Franworks restaurants to the Franworks Royalty Pool.

In the event that a Franworks restaurant is permanently closed during the year (including the termination of a franchise agreement) or that renovations have caused the closure of a restaurant, Franworks will continue to pay the royalty amount for that closed Franworks restaurant ("Make-whole Payment") from the date of closure until those sales are replaced with gross sales from new Franworks restaurants that are added to the Royalty Pool or until the restaurant re-opens. The amount of the Make-whole Payment is based on the gross sales of the permanently closed restaurant or the restaurant, which was closed due to renovations, as applicable, for the first year it was included in the Franworks Royalty Pool.

The Franworks Acquisition was a platform transaction for DIV and the first step in DIV's current business strategy to purchase top-line royalty streams from a number of growing multi-location businesses and franchisors.

Sutton:

The Sutton Acquisition was DIV's second royalty purchase and was another step in the Company's strategy of purchasing royalties from a diverse group of high quality multi-location businesses and franchisors. The approximate $3.5 million of annual royalty revenue represents less than 70% of Sutton's trailing 12 months March 31, 2015 EBITDA and increases at a fixed rate of 2% per year. The existing royalty coverage and the fixed royalty growth rate help to enhance the stability of the royalty stream.

As noted above the Sutton royalty is calculated by multiplying the number of agents in the Sutton "Royalty Pool (initially set at 5,185 agents) by the Sutton Royalty Rate (initially set at $56.25 per agent per month). Following completion of the Sutton Acquisition, DIV now owns all of the ordinary limited partnership units of the Sutton Partnership and Sutton now owns all of the Class A, B, C, D and E limited partnership units of the Sutton Partnership. Sutton has the ability, subject to meeting certain performance criteria, to increase the amount of the annual royalty payable to the Sutton Partnership by increasing the number of agents in the Sutton Royalty Pool in consideration for which Sutton will be entitled to exchange certain of the Class A limited partnership units held by Sutton for common shares of DIV based on a formula which is accretive to DIV shareholders. The number of agents in the Sutton Royalty Pool may be increased annually, and will never be decreased. The Sutton Royalty Rate will automatically increase by 2% each July 1st beginning in 2016. Sutton will also have the ability, subject to meeting certain performance criteria, to increase the Royalty Rate in 10% increments four times during the life of the royalty in consideration for which Sutton will be entitled to exchange certain of the Class B, C, D or E limited partnership units, as applicable, held by Sutton for common shares of DIV based on a formula which is accretive to DIV shareholders.

Company's primary objectives:

The Company's primary objectives are to: (i) generate predictable, growing royalty streams, and, (ii) increase cash flow per share by making accretive royalty purchases. These objectives will allow the Company to pay a predictable and stable dividend to shareholders, while increasing the dividend as cash flow per share increases allow.

FRANWORKS' INTEREST IN THE COMPANY

Upon closing of the Franworks Acquisition on September 26, 2014, and as partial consideration received for the FW Rights, Franworks indirectly owned 16.9% of the issued and outstanding common shares of the Company. Franworks currently indirectly owns 8,992,187 (12.8%) of the common shares of the Company.

In addition, Franworks also indirectly acquired 100,000,000 Class B limited partnership units, 100,000,000 Class C limited partnership units and 100,000,000 Class D limited partnership units of the FW Partnership. A portion of the Class B limited partnership units, Class C limited partnership units and Class D limited partnership units indirectly held by Franworks will be automatically exchanged for common shares of the Company in connection with the addition of Franworks restaurants to the Franworks Royalty Pool or increases to the royalty rate payable by Franworks, but Franworks will not receive cash distributions from the FW Partnership in respect of such units. Franworks is contractually required to own, at all times, a minimum of 5,301,205 common shares of DIV, plus 10% of the cumulative number of common shares of DIV issued to Franworks upon the exchange of FW Partnership units during the term of the royalty. The 5,301,205 shares is equivalent to 10% of the number of common shares of the Company that were issued and outstanding upon closing of the Franworks Acquisition.

SUTTON'S INTEREST IN THE COMPANY

Upon closing of the Sutton Acquisition on June 19, 2015, Sutton indirectly acquired 100,000,000 Class A limited partnership units, 100,000,000 Class B limited partnership units, 100,000,000 Class C limited partnership units, 100,000,000 Class D limited partnership units, and 100,000,000 Class E limited partnership units of the Sutton Partnership.

Class A LP Units become exchangeable for common shares of DIV upon the addition of Eligible New Agents (as defined in the Amended and Restated Limited Partnership Agreement of the Sutton Partnership dated June 19, 2015, among SGRS Royalties GP Inc., Sutton and DIV (the "LP Agreement")) to the Royalty Pool Agent Count (as defined in the LP Agreement). Class B LP Units, Class C LP Units, Class D LP Units and Class E LP Units, become convertible into common shares of DIV upon increases to the Sutton Royalty Rate, as a result of the applicable Incremental Royalty Rate Increase (as defined in the LP Agreement).

CONSOLIDATION OF THE PARTNERSHIPS

IFRS requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The consolidated financial statements include the accounts of Diversified Royalty Corp, FW Partnership, its 90%-owned subsidiary, FW Royalties GP Inc., the Sutton Partnership, and its 99%-owned subsidiary, SGRS Royalties GP Inc. The FW Partnership's and Sutton Partnership's significant assets include cash, royalties' receivable from Franworks and Sutton and other receivables, and the FW Rights and Sutton Rights, while their significant liabilities include accounts payable, interest payable, a promissory note (in the case of the Sutton Partnership only), and a long-term bank loan. The earnings of FW Partnership and the Sutton Partnership are largely comprised of royalty income earned from the licence of the FW Rights and Sutton Rights to Franworks and Sutton, respectively, less administrative and interest expenses.

DIVIDENDS TO SHAREHOLDERS

The Company intends to provide consistent monthly dividends to shareholders at a sustainable level, and the Company's directors will review dividend levels on an ongoing basis. On October 20, 2014, the Company's board of directors announced the adoption of a monthly dividend policy to pay an annual aggregate dividend of $0.1884 per common share (or $0.0157 per share per month), payable on a monthly basis in arrears. Since that time, the Company has paid monthly dividend payments in November and December of 2014, and January, February, March, April, May, June and July of 2015.

With the closing of the Sutton Acquisition, DIV's annual dividend will increase from $0.1884 per share to $0.20 per share (a 6% increase) effective August 31, 2015. Subject to completion of the Mr. Lube Transaction, DIV's board of directors has approved an increase of 11.25% in the Company's annual dividend from $0.20 per share (reflecting the aforementioned annual dividend increase related to the Sutton Acquisition) to $0.2225 per share effective October 31, 2015 (assuming the Transaction completes in August 2015).

The determination to declare and pay dividends is at the discretion of the Company's board of directors, and until declared payable, the Company has no requirement to pay cash dividends to its shareholders. The Company's board of directors will review this dividend policy on an ongoing basis, and may amend the policy at any time in light of the Company's then current financial position, profitability, cash flow, applicable legal requirements and other factors considered relevant by the Company's board of directors. The Company's dividends are deemed eligible dividends for Canadian tax purposes.

DISTRIBUTABLE CASH

Distributable Cash is defined as revenue less ongoing expenses less cash interest paid on the term loan. Distributable Cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

Distributable Cash	three months ended	three months ended	six months ended	six months ended
(000's)	**June 30, 2015**	**June 30, 2014**	**June 30, 2015**	**June 30, 2014**
Revenue	$ 3,535	$ -	$ 6,451	$ -
Less:				
Salaries and benefits [1]	149	184	327	432
General and administration [1]	193	348	332	556
Professional fees [1]	102	181	187	215
	444	713	846	1,203
Normalized EBITDA	3,091	(713)	5,605	(1,203)
Less: cash interest expense (income)	198	(201)	395	(437)
Distributable Cash	**2,893**	**(512)**	**5,210**	**(766)**
Less unusual and non-cash items:				
Litigation [2]	1,214	216	1,908	261
Net finance income [3]	(72)		(114)	-
Stock based compensation	73	92	127	183
Proxy contest costs [4]	-	335	-	335
Acquisition costs [5]	-	437	-	437
Professional fees related to change in business structure	-	463	-	463
Pre-tax net income	1,678	(2,055)	3,289	(2,444)
Deferred Income tax expense	998	-	1,419	
Net income (loss) and comprehensive income (loss) for the period	$ 680	$ (2,055)	$ 1,870	$ (2,444)

Notes:

[1] For additional information, see the relevant subheadings under the section, "Results of Operations for the Three Months Ended June 30, 2015".

[2] In the second quarter of 2015, the Company incurred increased legal fees related to the John Bennett trial scheduled for February of 2016. For additional information, see "Litigation" under the section, "Results of Operations for the three months ended June 30, 2015".

[3] Net finance income includes finance income, net of non-cash finance costs.

[4] In May 2014, Difference Capital Financial Inc. ("DCF") began a proxy contest with the Company. The Company reached an agreement with DCF pursuant to which DCF agreed not to solicit proxies for the election of directors at the annual general and special meeting of the Company held on June 30, 2014, which included payment of $0.1 million of DCF's costs.

[5] Acquisition costs relate to Franworks.

FRANWORKS ROYALTY POOL

Sales

The Company's income from Franworks is based on a royalty of 6% of gross sales of Franworks restaurants in the Franworks Royalty Pool. The following table sets out system sales of the restaurants in the Franworks Royalty Pool for the periods indicated below:

	three months ended		six months ended	
(000's)	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
System Sales	$ 56,963	$ 52,636	$ 105,560	$ 99,486
Royalty Income	$ 3,418	$ 3,158	$ 6,334	$ 5,969

Second Quarter

System sales in the Franworks Royalty Pool for the second quarter of 2015 were $57.0 million compared to $52.6 million for the same quarter of 2014, an increase of 8.2%. 75% of the increase in Franworks Royalty Pool system sales was due to net new store roll-ins completed on April 1, 2015 with the remaining 25% a net result of -0.4% SSSG* and incremental sales from stores not open for 100% of the prior reporting period. The sales figure for the second quarter of 2015 includes make-whole payments on lost system sales of $0.9 million related to renovations which were underway at three restaurants. Second quarter same-store-sales growth results were as expected given current economic conditions in Alberta coupled with Franworks' U.S. based restaurants comparing against strong sales occurring in the Second Quarter of 2014 due to the FIFA World Cup. Positive SSSG gains were generated in BC and Ontario during the second quarter.

Of the 82 Franworks restaurants in the Royalty Pool as at June 30, 2015, 79 were operated during both the entire three months ended June 30, 2015 and the entire three months ended June 30, 2014. The SSSG for these 79 restaurants was -0.4%. This includes a positive contribution of 1.3% from the impact of translating US sales into Canadian dollars ("FX impact").

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* SSSG across the entire Franworks' system was -0.2%.

Year to date

System sales for the 6 months ended June 30, 2015 were $105.6 million compared to $99.5 million for the 6 months ended June 30, 2014, an increase of 6.1%. 50% of the increase in Franworks Royalty Pool system sales was due to net new store roll-ins completed on April 1, 2015 with the remaining 50% a result of 1.0% SSSG and incremental sales from stores not open for 100% of the prior reporting period.

Of the 89 Franworks restaurants open as at June 30, 2015, there were 74 that operated during both the entire 6 months ended June 30, 2015 and the entire 6 months ended June 30, 2014. The SSSG for these 74 restaurants increased 1.0%, largely due to the positive impact of a stronger U.S. dollar and SSSG in the first quarter of 2015 of 1.1% (excluding the FX impact).

Store Openings / Closings

From September 1, 2013 to April 1, 2014, five new restaurants were opened (one Original Joe's in Calgary, Alberta, one Original Joe's in Saskatoon Saskatchewan, and one Original Joe's in Winnipeg, Manitoba; and two State & Main restaurants in Ontario). One Elephant & Castle in Huron Chicago previously included in the Franworks Royalty Pool closed in December 2014. Four net new restaurants (five added, one closed) were added to the Royalty Pool on April 1, 2015 (see "Five New Restaurants Added to the Franworks Royalty Pool" above for further details).

SUTTON ROYALTY POOL

Unlike the Franworks royalty, which fluctuates based on varying gross sales of Franworks restaurants in the Franworks Royalty Pool, the Sutton royalty is initially set at the Sutton Royalty Rate of $56.25 per agent per month, based on the initial Sutton Royalty Pool of 5,185 agents. The Sutton Acquisition was completed on June 19, 2015, resulting in 12 days of royalty payments in the second quarter equal to approximately $117,000. Furthermore, a management fee of approximately $3,000 was earned over the same 12 days.

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED JUNE 30, 2015

Revenue

Revenue was $3.5 million in the second quarter of 2015, as compared with nil in the same quarter of 2014. The Company closed the Franworks Acquisition on September 26, 2014 and therefore did not have any royalty income in the same quarter of 2014. As the Sutton Acquisition was closed on June 19, 2015, the current period includes twelve days of royalty payments and management fees from Sutton, which amounted to approximately $117,000 and approximately $3,000, respectively. Franworks generated the majority of royalty income, contributing $3.4 million to overall revenue for the second quarter.

Salaries, Benefits and Stock-based Compensation

Salaries and benefits were $0.1 million in the second quarter of 2015, as compared with approximately $0.2 million in the same quarter of 2014. Savings in salaries and benefits were achieved in the second quarter of 2015 as a result of lower directors' fees. Stock-based compensation was $0.07 million in the first quarter of 2015, as compared with $0.09 million in the same quarter of 2014.

General & Administrative Costs

General and administrative costs were $0.2 million in the second quarter of 2015, as compared with $0.3 million in the same quarter of 2014.

Professional Fees

Professional fees were $0.1 million in the second quarter of 2015, as compared with $0.2 million in the same quarter of 2014. These fees are comprised of legal, audit and tax, and consulting services. The decline from last year primarily relates to more work being completed in the second quarter of 2014 related to the Franworks Acquisition and corresponding changes in the Company's business structure.

Normalized EBITDA and Distributable Cash

Please see the table above under the heading "Distributable Cash" for calculations of Normalized EBITDA and Distributable Cash.

As the Franworks Acquisition closed on September 26, 2014, the second quarter of 2015 marks the third full quarter with royalty revenue for the Company. Normalized EBITDA was $3.1 million in the second quarter of 2015, with revenue of $3.5 million less ongoing costs of $0.4 million (Salaries and benefits - $0.1 million; General and administration - $0.2 million; and Professional fees - $0.1 million). After $0.2 million in cash interest, the Company generated $2.9 million in Distributable Cash ($0.04 per share).

Litigation

Litigation expenses were $1.2 million in the second quarter of 2015, as compared with $0.2 million in the same quarter of 2014. The primary reason for the increase relates to legal fees related to the John Bennett related litigation. Additional information on the John Bennett related litigation and the claim by a US contractor is discussed below under the heading "Contingencies and Provisions".

Proxy Contest Costs

Proxy contest costs for the three month period ended June 30, 2015 were nil compared to $0.3 million in the same period a year earlier as DIV had a proxy contest in 2014 which was settled in in June 2014.

Acquisition Costs

Acquisition costs for the three month period ended June 30, 2015 were nil compared to $0.4 million in the same period a year earlier. In the current year, costs incurred for the acquisition of the Sutton Rights were capitalized as part of the purchase.

Finance Income

Finance income was $0.1 million in the second quarter of 2015, as compared with $0.2 million in the same quarter in 2014. This change reflects the fact that the Company deployed virtually all of its cash in the Franworks Acquisition on September 26, 2014. Subsequently on November 12, 2014, the Company completed the November 2014 Offering, substantially increasing its cash position. The Sutton Acquisition consumed approximately $24.3 million in cash on hand in the second quarter of 2015; however, this transaction did not close until late in the quarter (June 19, 2015).

Finance Costs

Finance costs were $0.2 million in the second quarter of 2015 as compared with $0.04 million in the second quarter of 2014. The finance costs for the second quarter of 2015 included interest of $0.2 million on the FW Term Loan (as defined below), $0.02 million in amortization of deferred financing costs related to the FW Term Loan, and $0.03 million in net foreign exchange gains.

Deferred Income Tax Expense

During the second quarter of 2015, the Company recorded a deferred income tax expense of $1.0 million as compared with an expense of nil in the second quarter of 2014.

The Company's deferred tax asset of $8.9 million primarily relates to the company's non-capital losses of approximately $33 million. Given the anticipated monthly royalty income to be received from Franworks and Sutton, the Company expects to be able to utilize these non-capital losses over the next few years, and as such, has recognized this asset on the balance sheet.

Net Income

Net income for the second quarter of 2015 was $0.7 million or a basic and diluted earnings per share of $0.01 compared to a net loss of $2.1 million or a basic and diluted loss per share of $0.05 for the second quarter of 2014.

RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2015

Revenue

Revenue for the six months ended June 30, 2015 was $6.5 million, as compared with nil for the same period a year earlier. The Company closed the Franworks Acquisition on September 26, 2014 and therefore did not have any royalty income for the same period of 2014. As the Sutton Acquisition was closed on June 19, 2015, the current period includes twelve days of royalty payments and management fees from Sutton, which amounted to approximately $117,000 and approximately $3,000, respectively. Franworks accounted for the majority of royalty income, contributing $6.4 million to overall revenue for the period.

Salaries, Benefits and Stock-based Compensation

Salaries and benefits for the six months ended June 30, 2015 were $0.3 million, as compared with approximately $0.4 million in the same period of 2014. Savings in salaries and benefits were achieved over the prior period with the closure of the Company's office in Oakville at the end of March 2014 and reduced overall headcount, in addition to lower directors' fees. Stock-based compensation was $0.1 million, as compared with $0.2 million in the same period of 2014.

General & Administrative Costs

For the six months ended June 30, 2015, general and administrative costs were $0.3 million, as compared with $0.6 million for the six months ended June 30, 2014. The majority of the variance can be explained by reduced rent with the closure of the Oakville office at the end of March 2014, in addition to a reduction in the monthly fee for the Services Agreement as described below under the heading "Transactions with Related Parties". The monthly fee was reduced from approximately $30,000 to $9,000 effective September 29, 2014 as the Services Agreement was amended to include only rent and administrative services. There was also an accrual of $205,000 for a GST/HST reassessment related to a CRA review conducted on GST returns in 2014. For the period June 2013 through April 2014, the CRA determined that the Company's input tax credits claimed should have been reduced to nil over this period the CRA deemed that "commercial activities" of the company ceased in May 2013 (which coincided with the sale of the company's waste treatment plant in St. Ambroise, Quebec). The actual reassessment received in November of 2014 amounted to $126,000, which resulted in a reversal of $79,000 of the amount previously accrued.

Professional Fees

Professional fees were $0.2 million for the six months ended June 30, 2015, as compared with $0.7 million for the same period a year earlier. These fees are comprised of legal, audit and tax, and consulting services. The decline from last year primarily relates to more work being completed the first half of 2014 related to changes in the Company's business structure.

Normalized EBITDA and Distributable Cash

As the Franworks Acquisition closed on September 26, 2014, the second quarter of 2015 marks the third full quarter with royalty revenue for the Company. Normalized EBITDA was $5.6 million for the six month period ended June 30, 2015, with revenue of $6.4 million less ongoing costs of $0.8 million (Salaries and benefits - $0.3 million; General and administration - $0.3 million; and Professional fees - $0.2 million). After $0.4 million in cash interest, the Company generated $5.2 million in Distributable Cash ($0.08 per share).

Litigation

Litigation expenses were $1.9 million for the six months ended June 30, 2015, as compared with $0.3 million for the same period in 2014. The primary reason for the increase is due to the John Bennett related litigation. Additional information on the John Bennett related litigation and the claim by a US contractor is discussed below under the heading "Contingencies and Provisions".

Proxy Contest Costs

Proxy contest costs for the six month period ended June 30, 2015 were nil compared to $0.3 million in the same period a year earlier. For an explanation of the differences, see "Results of Operations for the Three Months ended June 30, 2015 – Proxy Contest Costs" above.

Acquisition Costs

Acquisition costs for the six month period ended June 30, 2015 were nil compared to $0.4 million in the same period a year earlier. For an explanation of the differences, see "Results of Operations for the Three Months ended June 30, 2015 – Acquisition Costs" above.

Finance Income

Finance income was $0.2 million for the six months ended June 30, 2015, as compared with $0.5 million for the same period in 2014. For an explanation of the differences, see "Results of Operations for the Three Months ended June 30, 2015 – Finance Income" above.

Finance Costs

Finance costs were $0.5 million for the six months ended June 30, 2015, as compared with $0.05 million for the same period in 2014. Finance costs for the six months ended June 30, 2015 included interest of $0.4 million on the FW Term Loan, $0.03 million in amortization of deferred financing costs related to the FW Term Loan, and $0.02 million in net foreign exchange losses.

Deferred Income Tax Expense

During the six month period ended June 30, 2015, the Company recorded a deferred income tax expense of $1.4 million as compared with an expense of nil in the same period of 2014.

Further information on the Company's deferred tax asset is explained above under "Results of Operations for the Three Months ended June 30, 2015 – Deferred Income Tax Expenses".

Net Income

Net income for the six months ended June 30, 2015 was $1.9 million or a basic and diluted earnings per share of $0.03 compared to a net loss of $2.4 million or a basic and diluted loss per share of $0.06 for the same period in 2014.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

At June 30, 2015 the Company had cash and equivalents of $6.7 million and net working capital (including cash) of $5.8 million compared to cash and equivalents of $34.5 million and net working capital (including cash) of $33.9 million at December 31, 2014. On June 19, 2015, the Company used approximately $24.3 million of cash on hand and $6.3 million in debt to fund the completion of the Sutton Acquisition. Going forward, it is the Company's policy to distribute what it believes to be a sustainable dividend.

Term Loans

(a) Franworks:

The FW Partnership, has a $15 million non-revolving term loan facility, which bears interest at published three-month Canadian dollar banker's acceptance rates ("BA Rate") plus 4.15% per annum (the "FW Term Loan"). The FW Term Loan was arranged on September 26, 2014 to partially finance the purchase of the FW Rights from Franworks, and to provide term debt as part of the Company's consolidated capital structure. The FW Term Loan is subject to certain financial covenants, including a covenant to maintain a funded debt to normalized EBITDA ratio of not more than 1.6:1.0. As at June 30, 2015, the Company and the FW Partnership are in compliance with all financial covenants associated with this facility.

(b) Sutton:

On June 19, 2015 concurrent with the Sutton Acquisition, the Sutton Partnership borrowed $6,300,000 from a Canadian chartered bank (the "SGRS Term Loan"). The SGRS Term Loan has a term of 36 months, is non-amortizing, and was drawn down at a floating interest rate equal to the bank's prime rate plus 1.0% and was subsequently converted to a floating interest rate equal to the published bankers' acceptance rate in Canada plus 2.25% (currently equivalent to approximately 3.25%). The SGRS Term Loan requires monthly only interest payments and the maturity date of the facility is June 19, 2018. The SGRS Term Loan is secured by the Sutton Rights and the royalties payable by the Sutton Group under the Sutton License and Royalty Agreement. It has debt covenants usual for this type of credit facility, including a covenant to maintain EBITDA for the trailing twelve month period of at least $2,880,000. As at June 30, 2015, the Company and the Sutton Partnership are in compliance with all financial covenants associated with this facility.

Operating Lines of Credit

(a) Franworks:

The FW Partnership has a $2 million operating line of credit which bears interest at BA Rate plus 4.50% per annum. This operating line is intended for general working capital purposes or, if required, to help finance periodic differences between receipt of the royalty payments (which may vary due to small seasonal variations in the gross sales of those restaurants in the Franworks Royalty Pool), and payment of dividends to shareholders. As at June 30, 2015, the entire $2 million remains available for use and is undrawn.

(b) Sutton:

On June 19, 2015, concurrent with the Sutton Acquisition, the Sutton Partnership obtained a $500,000 demand operating facility from a Canadian chartered bank. This facility bears interest at BA Rate plus 2.45% and is secured by the Sutton Rights and the royalties payable by Sutton under the Sutton License and Royalty Agreement. As at June 30, 2015, the entire $500,000 remains available for use.

Cash from Operating Activities

For the six months ended June 30, 2015, cash provided by operations amounted to $3.7 million as compared to cash used by operations of $0.9 million for the six months ended June 30, 2014. The $3.7 million source of cash was a primarily a result of the operating income of $1.8 million, along with a promissory note in the amount of $1.5 million for a GST receivable in relation to the Sutton Acquisition.

The $0.9 million use of cash for the six months ended June 30, 2014 was a function of the $2.3 million operating loss, net of $0.2 million of non-cash share-based compensation, net of changes in non-cash working capital.

Cash from Investing Activities

Cash used for investing activities during the six months ended June 30, 2015 was $31.2 million due to the completion of the Sutton Acquisition in the period. Cash provided by investing activities during the same period of 2014 was negligible.

Cash from Financing Activities

Cash used in financing activities during the six months ended June 30, 2015 was $0.3 million, reflecting $6.5 million in dividend payments and net proceeds from the issuance of the Sutton Term Loan of $6.2 Million (net of deferred financing charges). Cash flows associated with financing activities during the same period in 2014 were nil.

CONTRACTUAL OBLIGATIONS

As at June 30, 2015, the following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements of the Company (on a consolidated basis).

(Millions)	Carrying amount	Contractual cash flow	2015	2016	2017	2018	Thereafter
Tenure agreement	$ 0.60	$ 0.60	$ 0.04	$ 0.08	$ 0.08	$ 0.08	$ 0.32
Accounts payable and accrued liabilities	0.73	0.73	0.73	-	-	-	-
Long-term bank loans	21.05	23.76	0.51	1.02	15.82	6.41	-
Total contractual obligations	$22.38	$25.09	$1.28	$1.10	$15.90	$ 6.49	$0.32

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

FINANCIAL AND OTHER INSTRUMENTS

The Company's financial instruments consist of: cash, royalty receivable from Franworks, royalty receivable from Sutton, other accounts receivable, accounts payable and accrued liabilities, provisions, a promissory note, long-term liability, employee RSU obligations and long-term bank loans.

The fair values of the royalty receivable from Franworks, royalty receivable from Sutton, other accounts receivable, accounts payable and accrued liabilities, provisions, and promissory note approximate their carrying amounts, largely due to the short-term maturities of these instruments. The fair value of the long-term liability and employee RSU obligations are adjusted quarterly to reflect current assumptions. The fair value of the Franworks long-term bank loan is not materially different from its carrying value as the variable interest rate on the facility would not be significantly different from the current market rate of interest due to the considerable security held by the banking syndicate. The same applies for the Sutton long-term bank loan. The Company does not have financial instruments for hedging or speculative purposes. See "Risk Factors".

CONTINGENCIES AND PROVISIONS

The following outlines contingencies and provisions with respect to the Company. See note 8 of the interim condensed consolidated financial statements of the Company for the three and six months ended June 30, 2015 (the "Q2 Financial Statements") for greater detail.

Mr. Bennett's Indemnity Claim

John Bennett ("Bennett"), founder and CEO of the Company until early 2004, is charged with conspiracy to defraud and major fraud against the United States between 2001 and mid-2004. The Company and two former vice presidents (both of whom left the Company in 2004) have plead guilty to this same conspiracy against the United States.

Bennett was extradited to the United States in November 2014 and is expected to be tried in February 2016. Note that up until recently (i.e. the first quarter of 2015), the trial had been scheduled for November of 2015. The Company has been ordered by the courts to reimburse Bennett for the reasonable legal costs he has incurred and will incur in connection with his criminal defense.

The Company has accrued for Bennett's legal costs incurred and reimbursable to him as at June 30, 2015. The cost to the Company in respect of his future legal expenses will be recorded when these expenses are known and the amounts reimbursable to him can be reasonably estimated.

If Bennett is acquitted, the Company's insurer is responsible for Bennett's legal costs. If Bennett is found guilty, the Company will be required to reimburse its insurance underwriter for all amounts advanced to Bennett and the Company will be entitled to reimbursement from Bennett. The Company's ability to obtain reimbursement will depend on its ability to identify and obtain recourse against Bennett’s assets, including, without limitation, the balance of any payments then still due to Bennett under the Reward for Tenure Agreement referred to in note 9 of Q2 Financial Statements.

Liability to Insurance Underwriter

The Company expects to receive reimbursement from its insurance underwriter in the amount of approximately $0.1 million (period ended June 30, 2014 - $0.4 million) for Bennett’s legal expenses incurred in connection with his criminal defense through June 30, 2015, as described above under the heading “Mr. Bennett’s Indemnity Claim”. This expected reimbursement has been recorded as amounts receivable as described in note 5 to the Q2 Financial Statements. Under its funding agreement with the underwriter, as noted above, the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Bennett is found guilty. The Company has cash resources available to settle the estimated liability that may result from this requirement.

Claim by US Contractor

During 2008, a prime contractor (Sevenson) on a US Federal Government project (“Project”) filed a complaint against the Company and many other persons in a US court. Initially, the complaint also named a director and officer, an officer and a senior manager, all of whom are no longer with the Company and some of whom were involved in, and pleaded guilty to, the conspiracy to defraud the United States as describe above under the discussion related to Mr. Bennett’s Indemnity Claim.

During the first quarter of 2009, the court stayed all proceedings in this matter pending the conclusion of the Antitrust Division of the United States Department of Justice investigation into the same matter. On November 18, 2014, the stay was lifted.

On February 11, 2015, Sevenson filed its third amended complaint against the Company and a reduced number (15) of other persons, but no longer any persons formerly associated with the Company. The complaint alleges that employees of the Company conspired with an employee of the prime contractor relating to, among other things, the awarding of contracts during the years 2002 through 2004. Of the 22 counts in the complaint, only 6 name the Company as a defendant. The complaint seeks not less than approximately $1.1 million US plus the value of additional gratuities from the Company.

Counsel for the Company have brought a motion to dismiss the third amended complaint for failure to plead enough facts to state a claim for relief that is plausible on its face. Success of this motion is not determinable at this time. If successful, the complaint will be dismissed as against the Company. If the Company is not successful on the motion, management intends to defend against this claim vigorously. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company’s financial statements in respect of the complaint.

TRANSACTIONS WITH RELATED PARTIES

The following transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Company's President and CEO and one of the Company's directors are co-founders and managing partners of Maxam Capital Corp ("Maxam"). The Company entered into a services agreement (the "Services Agreement") with Maxam whereby Maxam provided, effective as of January 1, 2014, accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Company. Pursuant to the Services Agreement, the Corporation paid Maxam a monthly service fee of approximately $30,000 plus reasonable out of pocket expenses. Effective September 29, 2014, this Services Agreement was terminated, and a new services agreement with Maxam was entered into whereby the monthly service fee was reduced to approximately $9,000 per month and includes only rent and administrative services. Chief Financial Officer services were removed. On September 29, 2014, the Company's then CFO (a Vice President at Maxam Capital) entered into a consulting services agreement with the Company, pursuant to which, his holding company provided his services as interim CFO to the Company for a period of three months, in return for a monthly fee of $12,500. This agreement was extended to January 31, 2015 and then terminated after the Company hired a permanent CFO.

On September 29, 2014, the Company agreed to a services agreement with the Company's President and CEO's holding company (the "CEO Agreement"), pursuant to which, his holding company provides his services as CEO to the Company in return for an annual service fee of $200,000 per annum until September 2015, and $287,500 per annum for the first two years thereafter, subject to adjustments. In addition, the CEO Agreement provides for payment of an incentive bonus based upon increases in the Company's aggregate cash dividends, the grant of 250,000 RSU's, and a lump sum signing bonus of $125,000. During 2013 and in conjunction with Mr. Morrison joining the Company as its President and Chief Executive Officer, a fund to be created by Maxam was granted a right to invest in the Company. At the time this right was granted to Maxam, Maxam and the Company were not related. This right was exercised by Maxam Opportunities Fund II LP on September 26, 2014, whereby it acquired 5,240,964 common shares at a price of $1.66 per share in a private placement in connection with the closing of the Franworks Acquisition.

As at June 30, 2015, Franworks is considered to be a related party of the Company by virtue of common directors of Franworks and the Company. The Company receives royalty payments from Franworks and through the FW Partnership. In connection with the Franworks Acquisition, the Company and Franworks, and certain of their respective subsidiaries, entered into several agreements related to the licence of the FW Rights, the governance of the FW Partnership and the security of the royalty payable by Franworks. For full particulars of these agreements, reference should be made to the Company's Annual Information Form dated March 25, 2015 for the fiscal year ended December 31, 2014, a copy of which is available under the Company's profile at www.sedar.com. Also see the section above, "Five New Restaurants Added to the Franworks Royalty Pool", which reflects a related party transaction completed during the three month period ended June 30, 2015, as one of the Company's directors is the President and CEO of Franworks.

SHARE CAPITAL

The number of common shares outstanding at August 7, 2015 was 70,365,901. This increased from December 31, 2014 due to 1,835,728 common shares issued in a private placement to the FW Subsidiary as part of the annual Franworks Royalty Pool adjustment, which occurred on April 1, 2015 (see "Five New Restaurants Added to the Franworks Royalty Pool" above). There were 705,500 stock options outstanding as at August 7, 2015 exercisable at prices from $1.50 to $2.12 per share. No stock options have been issued since August 2013. The Company issued 250,000 RSU's effective September 29, 2014. Subsequent to quarter end, effective April 21, 2015, the Company issued an aggregate of 32,418 RSU's to certain of its directors which vest at the end of three years. The 294,117RSU's that are currently issued and outstanding vest between December 31, 2017 and April 1, 2018 into an equal number of common shares.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's Q2 Financial Statements in conformity with IFRS requires estimates and judgments to be made that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures. These estimates are based on historical experience and knowledge of economics, market factors, and the restaurant industry along with various other assumptions that are believed to be reasonable under the circumstances.

Significant estimates and judgments made by management in the application of IFRS that have a significant effect on the amounts recognized in these condensed consolidated interim financial statements are as follows:

Intangible Assets

DIV carries the FW Rights and Sutton Rights at historical cost comprising the amount of consideration paid for the FW Rights and Sutton Rights. DIV tests the FW Rights and Sutton Rights for impairment annually, which requires that the Company use a valuation technique to determine if impairment exists. This valuation technique is dependent on a number of different variables which requires management to exercise judgment, and as a result, the estimated net cash flows the FW Rights and Sutton Rights are expected to generate could differ materially from actual results.

Fair value of Class B, C, D, and E Franworks Partnership units ("Exchangeable Partnership Units" or "Exchangeable units")

Fair value of Class A, B, C, D, and E Sutton Partnership units ("Exchangeable Partnership Units" or "Exchangeable units")

The Company does not assign any value to the Exchangeable Franworks and Sutton Partnership Units as they do not currently meet the relevant criteria for exchange into common shares of DIV (see note 7 in the Q2 Financial Statements for further information).

Consolidation

Applying the criteria outlined in IFRS 10, judgment is required in determining whether DIV controls the Franworks Partnership and Sutton Partnership. Making this judgment involves taking into consideration the concepts of power over the Partnerships, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of the partnerships so as to generate economic returns. Using these criteria, management has determined that DIV ultimately controls the Franworks Partnership through its 90% ownership of the general partner of the Franworks Partnership and the Sutton Partnership through its 99% ownership of the general partner of the Sutton Partnership.

CHANGES IN ACCOUNTING POLICIES

The interim condensed consolidated financial statements accompanying this MD&A have been prepared using the same accounting principles and policies as the Company's annual financial statements for the year ended December 31, 2014.

DESCRIPTION OF NON-IFRS AND ADDITIONAL IFRS MEASURES

Non-IFRS Measures

Management believes that disclosing certain non-IFRS financial measures provides readers of this MD&A with important information regarding the Company's financial performance and its ability to pay dividends. By considering these measures in combination with the most closely comparable IFRS measure, management believes that investors are provided with additional and more useful information about the Company than investors would have if they simply considered IFRS measures alone. The non-IFRS financial measures do not have standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. Investors are cautioned that non-IFRS measures should not be construed as a substitute or an alternative to cash flows from operating activities as determined in accordance with IFRS.

In addition to financial measures prescribed by IFRS, "Normalized EBITDA", "Distributable Cash", "Same Store Sales Growth", and "Royalty Coverage" are used as non-IFRS measures in this MD&A.

Normalized EBITDA

References to "Normalized EBITDA" in this MD&A are references to revenue (determined in accordance with IFRS) less ongoing expenses, excluding unusual expenses and before amounts for interest, taxes and depreciation and amortization. While Normalized EBITDA is not a recognized measure under IFRS, management of the Company believes that, in addition to net income, Normalized EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service, working capital needs and capital expenditures. Investors should be cautioned, however, that Normalized EBITDA should not be construed as an alternative to a statement of cash flows as a measure of liquidity and cash flows. The methodologies used by the Company to determine Normalized EBITDA may differ from those utilized by other issuers or companies and, accordingly, Normalized EBITDA as used in this MD&A may not be comparable to similar measures used by other issuers or companies. Readers are cautioned that Normalized EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of an issuer's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The table under the heading "Distributable Cash" above provides a reconciliation from this non-IFRS financial measure to net income (loss).

Distributable Cash

Distributable Cash is defined as Normalized EBITDA less cash interest paid on the term loan. Distributable cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

Management believes that Distributable Cash provides investors with useful information about the amount of cash the Company has generated to cover distributions on the shares during the period. The table under the heading "Distributable Cash" above provides a reconciliation from this non-IFRS financial measure to net income (loss).

Same Store Sales Growth

Same store sales growth is the percentage increase in same store sales over the prior comparable period. Same store sales growth is a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS. However, DIV and Franworks believe that same store sales growth is a useful measure as it provides investors with an indication of the change in year-over-year sales of Franworks Restaurants. DIV's and Franworks' method of calculating same store sales growth may differ from those of other issuers or companies and, accordingly, same store sales growth may not be comparable to similar measures used by other issuers or companies.

Royalty Coverage

Royalty coverage for a particular royalty stream is calculated by dividing Normalized EBITDA for a royalty payor by the royalty payment minus one. Royalty Coverage is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

Management believes that Rroyalty coverage provides investors with useful information about the ability of an underlying royalty payor to pay its royalty.

Additional IFRS Measures

IFRS mandates certain minimum line items for financial statements and requires presentation of additional line items, headings and subtotals when such presentation is relevant to an understanding of the issuer's financial position or performance. IFRS also requires that notes to the financial statements information that is not presented elsewhere in the financial statements, but is relevant to understanding them. Such financial measures outside the minimum mandated line items are considered additional IFRS measures. The Q2 Financial Statements include certain additional IFRS measures where management considers such information to be useful to understanding the Company's financial results.

RISK FACTORS

For information on risk factors associated with the Company and its business, refer to the disclosure under the heading "Risk Factors" in the Company's Annual Information Form dated March 25, 2015 for the fiscal year ended December 31, 2014, a copy of which is available on SEDAR at www.sedar.com. In addition, for information on risk factors associated with the Offering, the Transaction and the businesses of Sutton and Mr. Lube, see the disclosure under the heading "Risk Factors" in the Company's preliminary prospectus dated July 29, 2015, a copy of which is available on SEDAR at www.sedar.com. Readers should also review the disclosure under the heading "Risk Factors" in the Company's final prospectus for the Offering, when, and if, it is filed on SEDAR at www.sedar.com as such disclosure will supersede any disclosure in the preliminary prospectus.

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A, and documents referred to herein, may constitute "forward-looking information" within the meaning of applicable securities laws. Such statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements or industry results expressed or implied by such forward-looking information. Forward-looking information is generally identified by the use of terms and phrases such as "anticipate", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", and similar terms and phrases, including references to assumptions. Such information includes, but is not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and DIV's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, competitors or regulatory authorities, and statements regarding DIV's future economic performance. DIV has based these forward-looking statements on DIV's current expectations about future events. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to: DIV's intention to purchase additional top-line royalties from growing multi-location businesses and franchisors; DIV's intention to make regular monthly cash dividends; the Company's board of directors reviewing the Company's dividend policy going forward; the Company's expectation that it will be able to use its outstanding non-capital losses over the next few years; ongoing litigation with John Bennett and the payment of legal costs and potential liabilities associated therewith; ongoing litigation with a contractor in relation to the Project; the expected tax treatment of DIV's dividends to shareholders; DIV's access to available sources of debt and equity financing; DIV's intended use of the proceeds of the November 2014 Offering; the amount and timing of the payment for the remaining consideration payable to Franworks by the Company for the net new royalty revenue from the five Franworks restaurants added to the Franworks Royalty Pool; the completion of an audit of the gross sales of the five Franworks restaurants added to the Franworks Royalty Pool; the possibility of future increases in the royalty payments made by the FW Subsidiary to the FW Partnership and the issuance of common shares by DIV to the FW Subsidiary in connection therewith; the possibility of future increases in the royalty payments made by Sutton indirectly to DIV and the issuance of common shares by DIV to Sutton in connection therewith; future increases in the management fee payable by Sutton to DIV; the increases in DIV's annual dividend related to the Sutton Acquisition and the Mr. Lube Acquisition and the timing therefor; the expected terms of the Offering, the closing date therefor and the expected use of the net proceeds therefrom, including for the partial payment of the purchase price for the Mr. Lube Marks, and if the Over-Allotment Option is exercised, for future acquisitions and for DIV's general corporate purposes; the expected expenses of the Offering; the terms of the Subscription Receipts; the completion of the Transaction, the terms thereof and the expected timing therefor; the possibility of future increases in the Royalty payments made by Mr. Lube to DIV and the issuance of common shares by DIV to Mr. Lube in connection therewith; the increase in DIV's annual dividend and the timing therefor; statements related to the expected tax implications of the Acquisition on DIV; the means by which DIV intends to finance the Transaction; the requirement for regulatory approvals for the Offering and the Transaction, including the approval of the TSX; the amount and terms of the debt financing to be used by DIV to partially satisfy the purchase price for the Mr. Lube Marks; and future increases in the management fee payable by Mr. Lube to DIV..

Forward-looking information contained in this MD&A is based on certain key expectations and assumptions made by the Company, including, without limitation, expectations and assumptions respecting: the general economy; the payment of royalties from Franworks and adjustments thereto; the amount and timing of the payment of the additional consideration payable by the Company to Franworks for the net new royalty from the five additional Franworks restaurants added to the Royalty Pool on April 1, 2015; that the results of the audit to be completed on the gross sales of the five new Franworks restaurants added to the Royalty Pool on April 1, 2015 will be satisfactory to the Company; the payment of royalties and management fees from Sutton and adjustments thereto; the successful completion of the Offering and Transaction; the successful integration of the Sutton and Mr. Lube royalties into the Company's overall businesses; the ability to acquire and effect of additional top-line royalties; the business strategy, growth opportunities, budgets, projected costs, goals, plans and objectives of the Company, Franworks, Sutton and, upon completion of the Transaction, Mr. Lube; the ability to receive equity and/or debt financing on acceptable terms; tax laws not being changed so as to adversely affect DIV's financing capability, operations, activities, structure or distributions; the ability to retain and continue to attract qualified and knowledgeable personnel; no material changes to government and environmental regulations adversely affecting DIV's operations; and competition for acquisitions, will be consistent with the economic climate. Although the forward-looking information contained in this MD&A is based upon what the Company's management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such information. Undue reliance should not be placed on the forward-looking information since no assurance can be given that it will prove to be correct.

Forward-looking information reflects current expectations of the Company's management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including, without limitation: the Company's high dependency on the operations of Franworks, Sutton and, upon completion of the Transaction ("Mr. Lube"); the closure of restaurants by Franworks, failure to successfully prosecute the Elephant & Castle trademark application in the United States; failure to complete the Offering and/or the Transaction on the terms expected or in accordance with the timing currently expected, or at all; failure to successful integrate the Sutton and Mr. Lube royalties into the Company's overall business; failure to increase the Company's dividend in the amount or in accordance with the timing expected, or at all; failure to receive necessary regulatory approvals, including from the TSX, for the Offering and/or the Transaction; prevailing yields on similar securities; the Company's reliance on key personnel; dividends are not guaranteed and will fluctuate with business performance; dividends are discretionary; the unpredictability and volatility of prices of the Company's common shares; leverage and restrictive covenants; current economic conditions; failure to access financing; credit facilities risk; the financial health of Franworks and cash flows; failure to realize anticipated benefits of royalty acquisitions; regulatory risk; regulatory filing and licensing requirements; fluctuations in interest rates; competition for royalty acquisition targets; dependence on business of Franworks and Sutton, and upon completion of the Transaction, Mr. Lube to fund dividends; limitations on future growth and cash flow; sensitivity to general economic conditions and levels of economic activity; financing constraints; foreign exchange exposure; the litigation with John Bennett; the litigation with Sevenson regarding the Project; and any residual liability arising from its former St. Ambroise plant. Readers are cautioned that the foregoing list is not exhaustive. For additional information with respect to risks and uncertainties, readers should carefully review and consider the risk factors described under "*Risk Factors*" and elsewhere in this MD&A. The information contained in this MD&A, including the documents referred to herein, identifies additional factors that could affect the operating results and performance of the Company. Readers are urged to carefully consider those factors.

The forward-looking information contained in this MD&A is expressly qualified in its entirety by this cautionary statement. Forward-looking information reflects management's current beliefs and is based on information currently available to the Company. The forward-looking information is made as of the date of this MD&A (or in the case of information contained in a document referred to herein, as of the date of such document), and the Company assumes no obligation to publicly update or revise such forward-looking information to reflect new information, subsequent or otherwise, except as may be required by applicable securities law.