DIVERSIFIED

DIV

ROYALTY CORP.

Management's Discussion and Analysis

For the three months ended March 31, 2016

May 16, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

BASIS OF PRESENTATION

This 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 months ended March 31, 2016 should be read in conjunction with the Company's condensed consolidated interim financial statements for the three months ended March 31, 2016 (the "Q1 2016 Financial Statements"). The financial statements of the Company are presented in thousands of Canadian dollars and are prepared in accordance with International Financial Reporting Standards ("IFRS") as applicable to interim financial reports including International Accounting Standards 34, Interim Financial Reporting.

Additional information related to the Company, including its Annual Information Form dated March 29, 2016 for the year ended December 31, 2015, is available on SEDAR at www.sedar.com.

Statements are subject to the risks and uncertainties identified in the "Risks Factors" and "Forward Looking Statements" sections of this document. The Company has included the non-IFRS measures of EBITDA, normalized EBITDA, distributable cash, same stores sales growth, and payout ratio. For further information of these measures, see the "Description of Non-IFRS and Additional IFRS Measures" section of this document.

It is the Company's policy to have royalty partners that are considered significant to DIV to file separate financial statements and MD&A on SEDAR. Accordingly, readers are also referred to the condensed consolidated interim financial statements and MD&A of Franworks Franchise Corp. ("Franworks") and Mr. Lube Canada Limited Partnership ("Mr. Lube") for the three months ended March 31, 2016. As DIV no longer views the intangible assets acquired from Sutton Group Realty Services Ltd. ("Sutton") to be a significant asset, subsequent to the 2015 financial statements and MD&A filed on SEDAR, Sutton ceased filing these documents unless it becomes significant to DIV in the future.

OVERVIEW

DIV is a multi-royalty corporation, engaged in the business of acquiring royalties from well-managed multi-location businesses and franchisors in North America ("Royalty Partners"). The Company believes that its royalty structure provides a strong incentive for a Royalty Partner to continue growing its business while retaining control of its business.

The Company's primary objectives are to (i) purchase stable and growing royalty streams from Royalty Partners, and (ii) increase distributable cash per share by making accretive royalty purchases. These objectives will allow the Company to pay a dividend to shareholders, while increasing the dividend as distributable cash per share allows.

The Company's revenue consists of royalties and management fees received monthly that are contractually agreed to between the Company and its Royalty Partners:

- Franworks: royalties are based on top-line system sales of Franworks restaurants in the royalty pool (the "Franworks Royalty Pool"). As at March 31, 2016, Franworks had 96 restaurants, of which 82 were in the Franworks Royalty Pool.
- Sutton: royalties are based on the number of agents in the royalty pool (the "Sutton Royalty Pool"). As at March 31, 2016, there were 5,185 agents in the Sutton Royalty Pool. In addition to the royalty, Sutton pays the Company a management fee of approximately $0.1 million per year for strategic and other services; and
- Mr. Lube: royalties are based on the top-line system sales of Mr. Lube flagship stores in the royalty pool (the "Mr. Lube Royalty Pool"). As at March 31, 2016, Mr. Lube had 168 locations, of which 117 were in the Mr. Lube Royalty Pool. In addition to the royalty, Mr. Lube pays the Company a management fee of approximately $0.2 million per year for strategic and other services.

The Company's ongoing cash expenditures are comprised of salaries and benefits, general and administration (including public company costs), professional fees, and interest on credit facilities. Litigation expenses primarily relate to the John Bennett litigation, as further described under the section "Contingencies and Provisions – John Bennett Indemnity Claim". The success of the Company currently depends on the ability of its Royalty Partners to maintain and increase the sales or number of agents in the respective royalty pools.

FINANCIAL HIGHLIGHTS

(000's except per share amounts, number of restaurants, agents, and locations)		Three months ended March 31, 2016		2015
Consolidated:				
Revenue	$	6,989	$	2,916
Royalty income		6,914		2,916
Normalized EBITDA[1]		6,501		2,513
Distributable cash[1]		5,947		2,315
Income from operations		3,051		1,764
Net income		2,045		1,190
Dividends declared		6,355		3,228
Basic earnings per share	$	0.02	$	0.02
Diluted earnings per share		0.02		0.02
Distributable cash flow per share[1]	$	0.05	$	0.03
Dividends declared per share		0.06		0.05
Total assets[2]	$	303,333	$	153,392
Total non-current financial liabilities[2]		55,742		15,337
Franworks Royalty Pool:				
Number of restaurants[2]		82		78
System sales	$	48,097	$	46,958
Royalty income[3]		2,942		2,916
SSSG[1,4]		-3.8%		2.5%
Sutton Royalty Pool[5] :				
Number of agents[2]		5,185		n / a
Royalty income and management fees	$	900		n / a
Mr. Lube Royalty Pool[6] :				
Number of locations[2]		117		n / a
System sales	$	44,539		n / a
Royalty income and management fees		3,147		n / a
SSSG[1]		7.0%		n / a

1) Normalized EBITDA, distributable cash, distributable cash flow per share, and SSSG are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, refer to the sections “EBITDA, Normalized EBITDA and Distributable Cash” and “Description of Non-IFRS and Additional IFRS Measures” in this MD&A.
2) At period end.
3) Royalty income includes make-whole payments of $0.06 million for the three months ended March 31, 2016 on lost system sales of $0.9 million. There was a make-whole payment of $0.1 million on lost system sales of $1.7 million during the three months ended March 31, 2015.
4) The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the first quarter of 2016 was -3.8% in Canadian dollars (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -5.9%).
5) The Sutton Acquisition closed on June 19, 2015.
6) The Mr. Lube Acquisition closed on August 19, 2015.

ROYALTY POOLS

Franworks

The following table sets out the royalty income received from Franworks for the periods indicated below:

(000's, except number of restaurants)	Three months ended March 31, 2016	2015
Number of restaurants[1]	82	78
System sales	$ 48,097	$ 46,958
Royalty income[2]	$ 2,942	$ 2,916

1) At period end.
2) Royalty income includes Franworks Make-Whole Payments of $0.06 million for the three months ended March 31, 2016 on lost system sales of $0.9 million. There was a Franworks Make-Whole Payment of $0.1 million during the three months ended March 31, 2015 on lost system sales of $1.7 million.

On September 26, 2014, the Company indirectly acquired, through FW Royalties Limited Partnership ("FW LP"), an entity controlled by the Company, all of the Canadian and U.S. 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 of Franworks (the "Franworks Subsidiary" or "OJFG") for a purchase price of $108.8 million (the "Franworks Acquisition"). The Franworks Acquisition was the first step in DIV's strategy of purchasing top-line royalty streams from a number of growing multi-location businesses and franchisors.

Immediately following the closing of the Franworks Acquisition, the Company licensed the FW Rights to the Franworks Subsidiary for 99 years in exchange for a royalty payment equal to 6.0% of the system sales (the "Franworks Royalty Rate") of the restaurants in the Franworks Royalty Pool.

For Franworks, changes in Franworks Royalty Pool system 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 ("Franworks 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 Franworks Make-Whole Payment is based on the system 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.

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 U.S. that was permanently closed. With the adjustment for these five openings and one closure, the Franworks Royalty Pool now includes 82 restaurants (the "2015 Franworks Royalty Pool Amendment").

The initial consideration for the estimated net additional royalty revenue is $4.9 million, representing 80% of the total estimated consideration of $6.2 million payable to the Franworks Subsidiary for such additional royalty revenue. 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 Franworks Subsidiary in the form of 1,835,728 DIV shares which were issued on April 1, 2015.

Based on the audited gross sales in 2015 of the net new stores added to the Franworks Royalty Pool on April 1, 2015, the total consideration for the net additional royalty revenue is $6.7 million. After taking into account the 1,835,728 DIV shares previously issued to OJFG on April 1, 2015, the Company will issue 637,051 DIV shares to OJFG.

On March 24, 2016, DIV, FW LP, Franworks Royalties GP Inc., and OJFG entered into an extension agreement pursuant to which the parties agreed to: (i) extend the date for the payment of the 637,051 DIV shares to OJFG in respect of the 2015 Franworks Royalty Pool Amendment from April 1, 2016 to April 3, 2017; and (ii) extend the deadline under the Franworks Licence and Royalty Agreement from March 26, 2016 to April 3, 2017 for the expenditure by OJFG of $8.0 million to refurbish and renovate certain Elephant & Castle restaurants in the Franworks Royalty Pool.

First Quarter

System sales in the Franworks Royalty Pool for the first quarter of 2016 were $48.1 million compared to $47.0 million for the same period in 2015. The increase was due to net new store roll-ins completed on April 1, 2015, partially offset by negative SSSG.

The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the first quarter of 2016 was -3.8%[1] in Canadian dollars. SSSG results for Franworks continue to be challenged by current economic conditions in Alberta and other prairie provinces. Franworks' Original Joe's and State and Main stores generated positive SSSG in British Columbia and Ontario while the U.S. Elephant and Castle stores benefitted from the U.S. dollar appreciation in the first quarter of 2016.

For the first quarter of 2016, 42 of the 82 restaurants in the Franworks Royalty Pool were based in Alberta, which generated $1.4 million of royalty income (20.4% of DIV's consolidated royalty income). The remaining 40 restaurants in the Franworks Royalty Pool generated $1.5 million of royalty income (22.2% of DIV's consolidated royalty income).

Sutton

The following table sets out the royalty income and management fees received from Sutton for the periods indicated below:

		Three months ended March 31,	
(000's, except number of agents)		**2016**	**2015**
Number of agents[1]		5,185	n / a
Royalty income[2]	$	875	n / a
Management fees[2]	$	25	n / a

1) At period end.
2) The Sutton Acquisition was completed on June 19, 2015.

On June 19, 2015, the Company completed its second royalty acquisition (the "Sutton Acquisition") whereby it indirectly acquired, through SGRS Royalties Limited Partnership ("SGRS LP"), an entity controlled by the Company, all of the Canadian and U.S. trademarks and certain other intellectual property rights utilized by 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, the Company licensed the Sutton Rights to Sutton for 99 years in exchange for a royalty payment equal to $56.25 per agent per month (the "Sutton Royalty Rate"), based on a determined number of agents in the Sutton Royalty Pool. The Sutton Royalty Rate grows by 2.0% per year, effective July 1st beginning in 2016. In addition, Sutton will pay the Company a management fee of approximately $0.1 million per year for strategic and other services.

First Quarter

Sutton made its scheduled fixed monthly royalty and management fee payments during the first quarter of 2016. Sutton's first quarter results were in line with expectations.

For the first quarter of 2015, 68 of the 5,185 agents in the Sutton Royalty Pool were based in Alberta, which generated $0.01 million of royalty income (0.2% of DIV's consolidated royalty income). The remaining 5,117 agents in the Sutton Royalty Pool generated $0.86 million of royalty income (12.5% of DIV's consolidated royalty income).

[1] Excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -5.9%.

Mr. Lube

The following table sets out the royalty income and management fees received from Mr. Lube for the periods indicated below:

(000's, except number of locations)		Three months ended March 31, 2016	2015
Number of locations[1]		117	n / a
System sales[2]	$	44,539	n / a
Royalty income[2]	$	3,097	n / a
Management fees[2]	$	50	n / a

1) At period end.
2) The Mr. Lube Acquisition was completed on August 19, 2015.

On August 19, 2015, the Company completed its third royalty acquisition (the "Mr. Lube Acquisition"), whereby it indirectly acquired, through ML Royalties LP ("ML LP"), an entity controlled by the Company, the trademarks and certain other intellectual property rights utilized by Mr. Lube ("ML Rights") in its business of franchising automotive maintenance businesses for a purchase price of $138.9 million.

Immediately following the closing of the Mr. Lube Acquisition, ML LP licensed the ML Rights back to Mr. Lube for 99 years, in exchange for a royalty payment equal to 6.95% of the system sales (the "Mr. Lube Royalty Rate") of Mr. Lube locations in the Mr. Lube Royalty Pool. In addition, Mr. Lube will pay DIV a management fee of approximately $0.2 million per year for strategic and other services.

For Mr. Lube, changes in system sales are derived from both SSSG from existing locations in the Mr. Lube Royalty Pool and from the addition of new Mr. Lube locations to the Mr. Lube Royalty Pool.

In the event that a Mr. Lube location is permanently closed, Mr. Lube is required to pay a make-whole payment (the "Mr. Lube Make-Whole Payment"), which is based on the gross system sales of the trailing 12-month period immediately before it was permanently closed, multiplied by the Mr. Lube Royalty Rate and pro-rated for the number of days in the royalty period that the location was permanently closed.

First Quarter

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool was $44.5 million for the first quarter of 2016. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was 7.0% for the first quarter of 2016. The strong first quarter SSSG was due to a combination of a late winter season pushing some sales from the fourth quarter of 2015 into the first quarter of 2016, the shift in timing of key marketing campaigns and continued overall strong business execution.

For the first quarter of 2016, 22 of the 117 Mr. Lube locations in the Mr. Lube Royalty Pool were based in Alberta, which generated $0.7 million of royalty income (9.6% of DIV's consolidated royalty income). The remaining 95 Mr. Lube locations in the Mr. Lube Royalty Pool generated $2.4 million of royalty income (35.2% of DIV's consolidated royalty income).

EBITDA, Normalized EBITDA and Distributable Cash

The following table reconciles EBITDA, normalized EBITDA, and distributable cash to net income:

	Three months ended March 31,			
(000's)		**2016**		**2015**
Net income	**$**	**2,045**	**$**	**1,190**
Interest expense on credit facilities		554		198
Other finance income, net		(306)		(45)
Fair value adjustment on interest rate swaps		4		-
Income taxes		754		421
EBITDA[1]		**3,051**		**1,764**
Adjustments:				
Share-based compensation		119		54
Litigation		3,331		695
Normalized EBITDA[1]		**6,501**		**2,513**
Less: interest expense on credit facilities		554		198
Distributable cash[1]	**$**	**5,947**	**$**	**2,315**
Distributable cash flow per share[1]	$	0.0526	$	0.0338
Dividends declared per share		0.0556		0.0471
Payout Ratio		**105.8%**		**139.4%**

1) EBITDA, normalized EBITDA, and distributable cash are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, refer to the "Non-IFRS Measures" and "Additional IFRS Measures" in this MD&A.

Distributable Cash

During the first quarter of 2016, distributable cash increased by $3.6 million ($0.0188 per share) to $5.9 million ($0.0526 per share), compared to the first quarter of 2015. The increase was driven by additional royalty income generated from the Sutton Acquisition on June 19, 2015 and the Mr. Lube Acquisition on August 19, 2015.

Dividends Declared

The Company declared dividends in the aggregate amount of $6.3 million ($0.0556 per share) during the first quarter of 2016 compared to $3.2 million ($0.0471 per share) during the first quarter of 2015. The increase in the aggregate amount of declared dividends in 2016, compared to 2015 was primarily related to (i) the Sutton Acquisition and Mr. Lube Acquisition, as described under the section "Dividends to Shareholders", (ii) the issuance of 1,835,728 common shares to the Franworks Subsidiary on April 1, 2015, and (iii) the public offering of 42,595,000 subscription receipts, which were automatically exchanged into common shares of the Company upon closing the Mr. Lube Acquisition on August 19, 2015. The increase in the dividends declared per share was driven by the Sutton Acquisition and Mr. Lube Acquisition.

Payout Ratio

The payout ratio is calculated by dividing the total dividends declared during the period by the distributable cash generated in that period. The Company expects to maintain a payout ratio close to 100% over time.

The Company's payout ratio was 105.8% for the first quarter of 2016, compared to 139.4% for the comparative period in 2015. The payout ratio in the first quarter of 2016 is impacted by seasonality in both Mr. Lube and Franworks, which typically see lower sales in the first quarter of the year. The payout ratio in the first quarter of 2015 was significantly affected by the 14,375,000 common shares issued in the November 2014 public offering, where the proceeds were not fully deployed until the Sutton Acquisition on June 19, 2015.

In November 2015, the Company adopted a dividend reinvestment plan, commencing with the Company's November 2015 dividend, as described under the section "Dividends to Shareholders – Dividend Reinvestment Plan". As the dividends may be settled through a reinvestment in the Company's shares, the payout ratio on a cash basis was 100.7% for the three months ended March 31, 2016. As at March 31, 2016, the DRIP participation rate was 4.8%.

RESULTS OF OPERATIONS

The following table sets out selected unaudited information from the financial statements of the Company together with other data and should be read in conjunction with the consolidated financial statements of the Company for the three months ended March 31, 2016 and 2015. The financial information in the tables included in this MD&A are reported in accordance with IFRS unless otherwise noted.

(000's)	Three months ended March 31, 2016	2015
Royalty income	$ 6,914	$ 2,916
Management fees	75	-
	6,989	2,916
Expenses		
Salaries and benefits	306	178
Share-based compensation	119	54
General and administration	118	139
Professional fees	64	86
Litigation	3,331	695
	3,938	1,152
Income from operations	3,051	1,764
Interest expense on credit facilities	(554)	(198)
Other finance income, net	306	45
Fair value adjustment on interest rate swaps	(4)	-
Net finance costs	(252)	(153)
Income before income taxes	2,799	1,611
Income tax expense	754	421
Net income and comprehensive income	$ 2,045	$ 1,190

Revenue

Revenue was $6.9 million in the first quarter of 2016, compared to $2.9 million in the first quarter of 2015. The increase in revenue was due to the addition of the Sutton royalty stream effective June 19, 2015, and the Mr. Lube royalty stream effective August 19, 2015, which contributed $0.9 million and $3.1 million of revenues, respectively. In addition, there was incremental revenue from the net new stores added to the Franworks Royalty Pool on April 1, 2015, which was partially offset by negative SSSG at Franworks.

Salaries and Benefits

Salaries and benefits were $0.3 million in the first quarter of 2016, compared to $0.2 million in the first quarter of 2015. The increase is primarily due to the incentive bonus awarded to the Company's CEO and President.

Share-based Compensation

Share-based compensation for the first quarter of 2016 increased compared to the first quarter of 2015 due to the issuance of restricted share units in 2015.

General and Administration

General and administration expense for the first quarter of 2016 was comparable to the first quarter of 2015.

Professional Fees

Professional fees are comprised of legal, audit, tax, and advisory services. Professional fees for the first quarter of 2016 was comparable to the first quarter of 2016.

Litigation

Litigation expenses increased by $2.4 million in the first quarter of 2016, compared to the first quarter of 2015. This increase was due to the John Bennett related litigation. Additional information on the John Bennett related litigation is discussed under the section “Contingencies and Provisions – John Bennett Indemnity Claim”.

Interest Expense on Credit Facilities

Interest expense on credit facilities increased by $0.4 million in the first quarter of 2016 compared to the same period in 2015. The increase was primarily due to additional interest expense of $0.4 million incurred on the credit facilities related to financing the Sutton Rights and ML Rights acquisitions, which occurred on June 19, 2015 and August 19, 2015, respectively.

Other Finance Costs

The following table summarizes other finance costs for the first quarter of 2016.

	Three months ended March 31,	
(000's)	**2016**	**2015**
Foreign exchange gain (loss)	$ 352	$ (36)
Finance income	7	113
Amortization of deferred financing fees	(53)	(17)
Adjustment to and unwinding of discount on financial liabilities	-	(15)
	$ 306	$ 45

Other finance costs increased by $0.3 million in the first quarter of 2016 compared to the first quarter of 2015. The increase was primarily due to a foreign exchange gain related to U.S. dollar provisions, which was partially offset by the decrease in interest income due to the Company deploying its cash in the acquisition of the Sutton Rights in June 2015.

Income Tax Expense

Income tax expense increased by $0.3 million in the first quarter of 2016, compared to the first quarter of 2015. The increase was due to higher income before taxes.

Non-Capital Loss Carry-Forwards and Eligible Capital Expenditures

As at March 31, 2016, the Company has approximately $28.5 million of non-capital losses (December 31, 2015 - $30.4 million). In addition, the Company has eligible capital expenditures related to the FW Rights, Sutton Rights, and ML Rights, which has a tax cost base of approximately $180.1 million (December 31, 2015 - $183.3 million).

DIVIDENDS TO SHAREHOLDERS

The Company intends to pay monthly dividends to shareholders, 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 consistently paid monthly dividends.

After the closing of the Sutton Acquisition, DIV’s annual dividend increased from $0.1884 per share to $0.20 per share (a 6% increase) effective August 31, 2015. After the closing of the Mr. Lube Acquisition, the Company’s annual dividend increased a further 11.25% from $0.20 per share to $0.2225 per share effective October 30, 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. Dividends declared in 2015 and 2016 were as follows:

Month	Record date	Payment date	Amount / share
May 2016	May 16, 2016	May 31, 2016	$ 0.01854
April 2016	April 15, 2016	April 29, 2016	$ 0.01854
March 2016	March 15, 2016	March 31, 2016	$ 0.01854
February 2016	February 12, 2016	February 29, 2016	$ 0.01854
January 2016	January 15, 2016	January 29, 2016	$ 0.01854
December 2015	December 18, 2015	December 31, 2015	$ 0.01854
November 2015	November 20, 2015	November 30, 2015	$ 0.01854
October 2015	October 23, 2015	October 30, 2015	$ 0.01854
September 2015	September 23, 2015	September 30, 2015	$ 0.01667
August 2015	August 24, 2015	August 31, 2015	$ 0.01667
July 2015	July 24, 2015	July 31, 2015	$ 0.01570
June 2015	June 23, 2015	June 30, 2015	$ 0.01570
May 2015	May 22, 2015	May 29, 2015	$ 0.01570
April 2015	April 23, 2015	April 30, 2015	$ 0.01570
March 2015	March 24, 2015	March 31, 2015	$ 0.01570
February 2015	February 20, 2015	February 27, 2015	$ 0.01570
January 2015	January 23, 2015	January 30, 2015	$ 0.01570

Dividend Reinvestment Plan

In November 2015, the Company adopted a dividend reinvestment plan ("DRIP"), commencing with the Company's November 2015 dividend, which will be paid on November 30, 2015 to shareholders of record on November 20, 2015.

The DRIP allows eligible holders of the Company's common shares to reinvest their cash dividends paid in respect of their common shares in additional common shares of the Company. At the Company's election, these additional common shares may be issued from treasury or purchased on the open market. If the Company elects to issue common shares from treasury, the common shares will be purchased under the DRIP at a 3% discount to the volume weighted average of the closing price for the Common Shares on the TSX for the five trading days immediately preceding the relevant dividend payment date. The Company may, from time to time, change or eliminate the discount applicable to common shares issued from treasury.

In the first quarter of 2016, there were 141,953 common shares issued under the DRIP.

SUMMARY OF QUARTERLY RESULTS

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

(000's except per share amounts)	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014	Q3 2014	Q2 2014
Revenue	$ 6,989	$ 7,422	$ 3,078	$ 3,538	$ 2,916	$ 3,078	$ 169	$ -
Net income (loss)	$ 2,045	$ 1,675	$ 1,432	$ 680	$ 1,190	$ 1,432	$ 8,433	$ (2,054)
Earnings (loss) per common share								
Basic	$ 0.02	$ 0.01	$ 0.03	$ 0.01	$ 0.02	$ 0.02	$ 0.21	$ (0.05)
Diluted	$ 0.02	$ 0.01	$ 0.03	$ 0.01	$ 0.02	$ 0.02	$ 0.21	$ (0.05)

Revenue

The overall growing trend in quarterly revenue is driven by the following additions to the Company's royalty streams: (i) the Franworks Acquisition on September 26, 2014; (ii) the Sutton Acquisition on June 19, 2015; and (iii) the Mr. Lube Acquisition on August 19, 2015. There was no revenue generated in Q2 2014 as the Company closed its only operating facility in St. Ambroise, Quebec, and had not yet completed the Franworks Acquisition.

Net Income

Net income reflects the growing trend in quarterly revenue, offset by fluctuations associated with litigation expenses, acquisition costs, proxy contest costs, and income tax expenses / recoveries. During the second and third quarters in 2014, the Company incurred significant costs associated with the due diligence and legal fees related to the Franworks Acquisition, proxy contest costs, and fees associated with the Company graduating from the NEX to the TSX. These costs were largely offset by a deferred income tax recovery of $9.5 million recorded in the third quarter of 2014.

The fourth quarter of 2014 marks the first full quarter of royalty income, offset by increased litigation expenses related to the John Bennett litigation (see “Contingencies and Provisions - John Bennett Indemnity Claim”).

Net income during the third quarter and fourth quarter of 2015 reflects the additional royalty revenue generated from the Sutton Acquisition and the Mr. Lube Acquisition, partially offset by higher litigation expenses associated with John Bennett.

OUTLOOK

Franworks

DIV expects continued weakness in consumer discretionary spending to impact Franworks’ 2016 restaurant sales in Alberta and the other prairie provinces, with a resulting negative impact on the SSSG of the restaurants in the Franworks Royalty Pool. In order to navigate this economically challenging environment, Franworks has embarked on a number of initiatives including menu re-engineering, targeted promotional activities, administrative cost containment (which are having an immediate positive impact on Franworks’ EBITDA) and raising additional equity to further capitalize its balance sheet. Franworks should benefit in 2016 from a full year’s performance of the six restaurants opened in 2015 as well as the six new restaurants opened in the first quarter of 2016. Franworks has four additional restaurants under development that are currently expected to open by September 30th.

Mr. Lube

Mr. Lube’s strong first quarter SSSG are expected to taper slightly in the balance of 2016, towards its historical average as the first quarter was exceptionally strong due to weather and timing of key marketing programs. DIV expects Mr. Lube to continue its 16 year history of positive SSSG performance in 2016.

Sutton

Under its new leadership, Sutton is opening new offices, adding new agents and investing in technological innovation for its agents (new mobile apps and an online resource center) to help them manage and grow their businesses. DIV expects Sutton to have another solid year in 2016.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity

As at March 31, 2016, the Company had cash and equivalents of $6.5 million and net working capital (including cash) of $0.9 million compared to cash and equivalents of $8.9 million and net working capital (including cash) of $3.9 million at December 31, 2015. It is the Company’s policy to distribute what it believes to be a sustainable dividend.

It is the Company’s intention to acquire future royalty streams in separate legal entities without cross-collateralization so that, to the maximum extent possible, any liability exposure in one legal entity does not affect the balance sheet of any other legal entity. However, there can be no assurance that this will be achieved.

Credit Facilities

As at March 31, 2016, the Company’s subsidiaries had the following term loan facilities:

- FW LP – $15.0 million non-amortizing term loan facility, which matures on September 26, 2017, and bears interest at the bankers’ acceptance rate (“BA rate”) plus 4.15%;
- SGRS LP – $6.3 million non-amortizing term loan facility, which matures on June 19, 2018, and bears interest at the BA rate plus 2.25%; and
- ML LP – $34.6 million non-amortizing term loan facility, which matures on August 18, 2018, and bears interest at the BA rate plus 2.50%.

As at March 31, 2016, the Company’s subsidiaries had the following operating lines of credit:

- FW LP – $2.0 million operating line of credit, which matures on September 26, 2017, and bears interest at the BA rate plus 4.50%;
- SGRS LP – $0.5 million operating line of credit, which matures on June 19, 2018, and bears interest at the BA rate plus 2.45%; and

- ML LP – $1.0 million operating line of credit, which matures on August 18, 2018, and bears interest at prime plus 1.50%.

As at March 31, 2016, the Company and its subsidiaries were in compliance with all financial covenants associated with the term loan facilities and operating lines of credit.

As at March 31, 2016 and May 16, 2016, there were no amounts drawn under the Company's operating lines of credit.

Interest Rate Swaps

In October 2015, to manage risks arising from fluctuations in interest rates, the Company entered into interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for the SGRS LP term loan facility and the ML LP term loan facility. The following table summarizes the Company's interest rate swap agreements:

	Notional amount	Fixed interest rate	Maturity date	Unrealized loss since inception
SGRS LP interest rate swap	$ 6,300	3.41%	June 19, 2018	(46)
ML LP interest rate swap	34,600	3.62%	August 13, 2018	(255)
	$ 40,900			(301)

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve.

Cash Flows

(000's)	Three months ended March 31, 2016	2015
Cash from operating activities	$ 3,556	$ 1,806
Cash used in financing activities	(5,991)	(3,228)
Decrease in cash	(2,435)	(1,422)
Cash, beginning of period	8,889	34,511
Cash, end of period	$ 6,454	$ 33,089

Cash From Operating Activities

Cash from operations in the first quarter of 2016 increased by $1.8 million compared to the first quarter of 2015. The increase was primarily due to higher income from operations, net of changes in non-cash working capital.

Cash Used In Financing Activities

Cash used in financing activities in the first quarter of 2016 increased by $2.8 million compared to the first quarter of 2015. The increase relates to dividends declared.

Contractual Obligations

As at March 31, 2016, the following are the contractual maturities of financial liabilities, including estimated interest payments and the interest rate swap arrangements on a consolidated basis.

(000's)	Carrying amount	Contractual cash flow	2016	2017	2018	2019	Thereafter
Accounts payable and accrued liabilities	$ 933	$ 933	$ 933	$ -	$ -	$ -	$ -
Long-term bank loans[1]	55,441	60,584	1,664	17,021	41,899	-	-
Total contractual obligations	$ 56,374	$ 61,517	$ 2,597	$ 17,021	$ 41,899	$ -	$ -

1) Includes the impact of interest rate swap agreements.

FINANCIAL AND OTHER INSTRUMENTS

As at March 31, 2016, the Company's financial instruments consist of: cash, royalties and management fees receivable, amounts receivable, accounts payable and accrued liabilities, long-term liability, long-term bank loans, and interest rate swap liabilities. At initial recognition, all financial assets and liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as fair value through profit or loss. The Company classifies its financial instruments in the following categories:

- *Loans and receivables*: Cash and cash equivalents, royalties and management fees receivable, and amounts receivable are included in this category. The fair values of these financial instruments approximate their carrying amounts, largely due to the short-term maturities of these instruments.

- *Financial liabilities at amortized cost*: Accounts payable and accrued liabilities, and the amount drawn on the Company's bank loans are included in this category. The fair values of accounts payable and accrued liabilities approximate their carrying amounts due to the short-term maturities of these instruments. The fair value of the long-term bank loans is not materially different from its carrying value as these loans bear interest at floating rates.

- Financial assets and liabilities at fair value through profit or loss: interest rate swap liabilities are included in this category. In the first quarter of 2016, the Company recognized a nominal fair value adjustment on the interest rate swaps.

In the normal course of business, the Company is exposed to financial risks arising from its financial instruments. The board of directors has responsibility for the oversight of the Company's risk management framework and closely monitor the Company's internal controls and ability to pay future dividends.

Credit risk is associated with the Company's cash and cash equivalents, royalties and management fees receivable, and amounts receivable. Credit risk on the Company's cash and cash equivalents are mitigated by holding these amounts with a Canadian charted bank of high creditworthiness. Credit risk on the royalties and management fees receivable is monitored through regular review of the operating and financing activities of Franworks, Sutton, and Mr. Lube.

The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due. As at March 31, 2016, the Company had a cash and cash equivalents balance of \$6.5 million (2015 - \$8.9 million) and positive working capital of \$0.9 million (2015 - \$3.9 million). Management expects to refinance the non-amortizing loans as they become due, and has sufficient cash resources to settle other contractual liabilities as they become payable.

The Company is exposed to currency risk as a result of (i) the translation of Franworks' U.S. restaurant dollar sales into Canadian dollars for the purposes of calculating the monthly royalty; (ii) legal costs denominated in U.S. dollars related to the John Bennett indemnity claim as described under "Contingencies and Provisions – John Bennett Indemnity Claim"); and (iii) the expected repayment of legal costs the Company recovered from the insurance underwriter, as described under "Contingencies and Provisions – Liability to Insurance Underwriter". As at March 31, 2016, the Company had no foreign exchange contracts. However, it is the Company's practice to hold U.S. dollar cash to reduce exposure to foreign exchange fluctuations.

The Company's exposure to interest rate risk mainly arises from the long-term bank loans, which are subject to floating interest rates. As at March 31, 2016, interest rate risk is partially mitigated by interest rate swap arrangements that fix the interest rates on \$40.9 million of \$55.0 million of the Company's floating rate term loan facilities.

CONTINGENCIES AND PROVISIONS

The following outlines contingencies and provisions with respect to the Company. Refer to note 8 of the Q1 2016 Financial Statements for greater detail.

John Bennett Indemnity Claim

In 2009, John Bennett, CEO of the Company until early 2004, was charged with conspiracy to commit fraud 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) pled guilty to this same conspiracy against the United States.

In 2010, the Company was ordered by the courts to reimburse Mr. Bennett on an interim basis (the "Interim Order") for reasonable legal costs he would incur in connection with his criminal defense, subject to a reasonableness test as well as the obligation to repay the amounts advanced to him if it was ultimately determined that he was not entitled to indemnification because he did not act honestly and in good faith and with a view to the best interests of the Company.

In 2013, the Company brought a motion to challenge the reasonableness of some of Mr. Bennett's legal costs and was successful in part. In 2013, the Company also brought a motion to set aside the Interim Order but was unsuccessful.

In November 2014, Mr. Bennett was extradited to the United States.

In September 2015, the Company brought a motion to challenge the reasonableness of Mr. Bennett's legal costs incurred between 2013 and the date of the motion. In January 2016, the Ontario court ruled on the motion and decided that the majority of all the legal expenses that the Company was challenging were reasonable, except for a nominal amount of $0.05 million.

Mr. Bennett was tried between February 22, 2016 and March 16, 2016. On March 16, 2016, the jury returned a guilty verdict on both counts (conspiracy to commit fraud and major fraud against the United States).

Upon learning of the guilty verdict, the Company brought an urgent motion to the have the Interim Order set aside. On March 17, 2016, the court granted a temporary stay of the Interim Order pending the hearing of the Company's motion. The motion was heard on April 4, 2016, and the Ontario court found that the guilty verdict was still subject to confirmation by the trial judge in the United States. The Ontario court ruled that, as Mr. Bennett had brought a motion to set aside the verdict and require a new trial, the Interim Order should remain in place at this time and the Company is still obligated to pay Mr. Bennett's legal costs. The ruling on the confirmation of Mr. Bennett's verdict by the trial judge in the United States is expected to occur on or before his sentencing date of June 27, 2016.

The Company has sought leave to appeal the decision to leave the Interim Order in place and brought an urgent motion for another temporary stay of the Interim Order pending the result of the motion for leave to appeal, but the motion for another temporary stay of the Interim Order was heard and denied on April 11, 2016.

As the Interim Order remains in place at this time, the Company has accrued all legal costs incurred and reimbursable to Mr. Bennett to date, which includes amounts incurred in April 2016, and is aware that additional costs up to the sentencing date will be incurred and invoiced. Future legal costs associated with the claim against Mr. Bennett are not estimable and will be accrued upon receipt of the invoice by the Company.

If the trial judge in the United States confirms the guilty verdict and the interim order is set aside, then the Company expects that its insurance underwriter will request a reimbursement for all amounts advanced to Mr. Bennett through the Company, and the Company will be entitled to reimbursement from Mr. Bennett. Its ability to obtain reimbursement will depend on its ability to identify and obtain recourse against Mr. Bennett's assets.

Insurance Underwriter Provision

The Company has received reimbursements from its insurance underwriter for Mr. Bennett's legal costs incurred in connection with his criminal defense, and as described above. As at March 31, 2016, the Company has recovered $4.3 million (or US$3.3 million) from the insurance underwriter. As the Interim Order remains in place at this time, the Company expects to continue receiving reimbursements from its insurance underwriter, and has recorded a $1.6 million (or US$1.3 million) receivable from the insurance underwriter as at March 31, 2016.

If the trial judge in the United States confirms the guilty verdict and the interim order is set aside, then the Company expects that its insurance underwriter will request a reimbursement for all amounts advanced to Mr. Bennett through the Company, and the Company will be entitled to reimbursement from Mr. Bennett.

Subsequent to March 31, 2016, the Company received $2.1 million (or US$1.6 million) from its insurance underwriter.

The Company has adequate resources available to settle the estimated liability that may result from this requirement, which it has accrued in its financial statements.

Additional Claims Involving John Bennett

Bennett has also served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg") and the Company in 2011. The claim alleges that in September 2009, the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and Belzberg directed Second City to purchase the Company's common shares from Bennett. Management believes there is no basis for making this allegation against the Company. Accordingly the Company has made no provision in respect of this matter.

Claim by U.S. Contractor

In 2008, a prime contractor ("Sevenson") on a U.S. Federal Government project ("Project") filed a complaint against the Company and many other persons in a US court. This relates to the same matters which are the subject of the John Bennett litigation. 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 described under the discussion related to Mr. Bennett's Indemnity Claim.

In 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. 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 21 counts in the complaint, only six name the Company as a defendant. The complaint seeks not less than approximately $1.1 million U.S. plus the value of additional gratuities from the Company.

Counsel for the Company 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. This motion was not successful. Management intends to defend against this claim vigorously. In October 2015, the Company filed a counterclaim against Sevenson. In December 2015, the Company and Sevenson agreed to non-binding mediation. This mediation was unsuccessful in resolving this issue.

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.

SHARE CAPITAL

Common Shares

As at March 31, 2016, there were 113,207,449 common shares issued and outstanding compared to 113,065,496 as at December 31, 2015. During the three months ended March 31, 2016, there were 141,953 common shares issued under the DRIP.

Share Options

As at March 31, 2016 and December 31, 2015, there were 685,500 share options outstanding. The share options are exchangeable into common shares at exercise prices ranging from $1.50 to $2.12 per share. No share options have been issued since August 2013.

As at May 16, 2016, there were 685,500 share options outstanding.

Restricted Share Units ("RSUs")

As at March 31, 2016, there were 444,330 RSUs outstanding, compared to 443,218 RSUs as at December 31, 2015. During the three months ended March 31, 2016, there were 11,112 RSUs issued as dividend equivalents, in accordance with the Company's long-term incentive plan.

In January 2016, the Company announced that the directors of the Company have elected to receive all compensation related to 2016 in the form of RSUs. In addition, the Company's President and CEO has elected to receive at least 45% of his base salary related to 2016 in RSUs. The RSUs are issued quarterly pursuant to the long-term incentive plan at the five-day weighted average trading price of DIV's common shares as at the end of each quarter. Accordingly, in April 2016, the Company issued 11,811 RSUs to certain directors and 20,430 RSUs to the Company's President and CEO with a grant date fair value of $2.29 per RSU, totaling $0.1 million. These RSUs vest in their entirety on April 1, 2017, and will be settled in common shares.

In addition, as part of the annual grant of RSUs to certain directors, in April 2016, the Company issued 39,225 RSUs to certain directors at a grant date fair value of $2.29 per RSU, totalling $0.1 million. These RSUs vest in their entirety on April 1, 2019.

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.

Franworks' Interest in the Company

On September 26, 2014, upon closing of the Franworks Acquisition, DIV issued 8,992,187 common shares to the Franworks Subsidiary as partial consideration received for the FW Rights. On April 1, 2015, in connection with the addition of Franworks' restaurants into the Franworks Royalty Pool, DIV issued 1,835,728 common shares to the Franworks Subsidiary. As at March 31, 2016, Franworks indirectly owned 8,992,187 (7.9%) common shares of the Company.

In connection with the Franworks Acquisition, FW LP issued 100,000,000 Class B, Class C, and Class D limited partnership ("LP") units to the Franworks Subsidiary. The Class B LP units become exchangeable to common shares of DIV on the contribution of additional Franworks' restaurants into the Franworks Royalty Pool. The Class C and Class D LP units become exchangeable on the increase in the Franworks Royalty Rate from 6.0% to 7.0%, and from 7.0% to 8.0%, respectively, in accordance with the partnership agreement dated September 26, 2014.

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 LP 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. As at March 31, 2016, Franworks is required to retain a minimum of 5,484,778 common shares of DIV.

Franworks is considered to be a related party of the Company by virtue of a common director of Franworks and the Company (President and CEO of Franworks).

Sutton's Interest in the Company

On June 19, 2015, upon closing of the Sutton Acquisition, SGRS LP issued 100,000,000 Class A, Class B, Class C, Class D, and Class E LP units to Sutton. The Class A LP units become exchangeable for common shares of DIV upon the contribution of additional agents to the Sutton Royalty Pool. The Class B, Class C, Class D and Class E LP units, become exchangeable into common shares of DIV on increases in the Sutton Royalty Rate of 10.0% increments four times during the life of the royalty, in accordance with the partnership agreement dated June 19, 2015.

Mr. Lube's Interest in the Company

On August 19, 2015, upon closing of the Mr. Lube Acquisition, ML LP issued 100,000,000 Class B, Class C, Class D, Class E, and Class F LP units to Mr. Lube. The Class B LP units become exchangeable into common shares of the Company upon the addition of Mr. Lube locations to the ML Royalty Pool. The Class C, Class D, Class E, and Class F LP units become exchangeable into common shares of the Company on increases in the ML Royalty Rate of 0.5% increments four times during the life of the royalty, in accordance with the partnership agreement dated August 19, 2015.

Maxam Services Agreement

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 with Maxam whereby Maxam provides rent and administrative services to the Company for a monthly fee of approximately $9,000 per month.

SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim 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, 2015, except as described below.

Changes in accounting policies and disclosures

Effective January 1, 2016, the Company adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments do not require any significant change to current practice, but will facilitate improved financial statement disclosures. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

New Standards Applicable in Future Periods

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 9, *Financial Instruments* ("IFRS 9"), replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss. The mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

In January 2016, the IASB issued IFRS 16, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 7, Statement of cash flows as part of its major initiative to improve presentation and disclosure in financial reports. These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12, Income taxes. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset, and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

CRITICAL JUDGMENTS AND KEY ESTIMATES

The preparation of the Company's Q1 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 industries that the Company's Royalty Partners operate in (restaurant, real estate, and automotive maintenance), 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:

Critical Judgments

Consolidation

In applying the criteria outlined in IFRS 10, *Consolidated Financial Statements*, judgment is required in determining whether DIV controls FW LP, SGRS LP, and ML LP. Making this judgment involves taking into consideration the concepts of power over these entities, 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 these entities through a majority ownership of the respective general partners.

Capitalization of Acquisition Costs:

At the time of acquisition, the Company considers whether or not it represents a business combination or an asset acquisition. This requires the Company to make certain judgments as to whether or not the assets acquired include the inputs, processes and outputs necessary to constitute a business. Under a business combination, acquisition-related costs are recognized as an expense. When the acquisition does not represent a business combination, it is accounted as an asset acquisition, where the costs are capitalized to the respective asset.

Key Estimates and Assumptions

Intangible Assets

DIV carries the FW Rights, Sutton Rights, and ML Rights at cost comprising the amount of consideration paid for the FW Rights, Sutton Rights, and ML Rights. The intangible assets are not amortized as they have an indefinite life.

DIV tests the FW Rights, Sutton Rights, and ML 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. As a result, the estimated net cash flows the FW Rights, Sutton Rights, and ML Rights are expected to generate could differ materially from actual results.

Fair Value of Class B, C, D, and E FW LP units ("Exchangeable FW LP Units")

Fair Value of Class A, B, C, D, and E SGRS LP units ("Exchangeable SGRS LP Units")

Fair Value of Class B, C, D, E, and F ML LP units ("Exchangeable ML LP Units")

The Company does not assign any value to the Exchangeable FW LP Units, Exchangeable SGRS LP Units, and Exchangeable ML LP Units as they do not currently meet the relevant criteria for exchange into common shares of DIV (see note 7 in the 2015 Financial Statements for further information).

Deferred Taxes

Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. In recognizing a deferred tax asset, management makes estimates related to expectations of future taxable income, and the expected timing of reversals of existing temporary differences.

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, "EBITDA", "Normalized EBITDA", "Distributable Cash", "Same Store Sales Growth" and "Payout Ratio" are used as non-IFRS measures in this MD&A.

EBITDA and Normalized EBITDA

EBITDA is calculated as earnings before interest, taxes, depreciation and amortization. Normalized EBITDA is calculated as EBITDA before certain items including: share-based compensation, litigation expense, royalty transition credit, proxy contest costs, acquisition costs, professional fees related to the change in business structure, and CFO retention bonus. 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 "EBITDA, Normalized EBITDA, and Distributable Cash" above provides a reconciliation from this non-IFRS financial measure to net income.

Distributable Cash

Distributable Cash is defined as Normalized EBITDA less interest expense on the credit facilities. 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.

Same-Store-Sales-Growth or SSSG

Same store sales growth is the percentage increase in store sales over the prior comparable period for locations that were open in both the current and prior periods, excluding stores that were permanently closed. Same store sales growth is a non-

IFRS financial measure and does not have a standardized meaning prescribed by IFRS. However, the Company believes that SSSG is a useful measure as it provides investors with an indication of the change in year-over-year sales of Franworks restaurants and Mr. Lube locations. The Company's 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.

Payout Ratio

The payout ratio is calculated by dividing the total dividends declared during the period by the distributable cash generated in that period. The payout ratio is not a recognized measure under IFRS, however, management of the Company believes that it provides supplemental information regarding the extent to which the Company distributes cash, when compared to its cash flow capacity. Payout ratio as used in this MD&A may not be comparable to similar measures used by other issuers or companies.

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 Q1 2016 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 29, 2016 for the year ended December 31, 2015, a copy of which is available on SEDAR at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR"), as such terms are defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109").

DC&P are those controls and other procedures that are designed to provide reasonable assurance that all material information required to be disclosed by the Company in annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in the securities legislation. Furthermore, DC&P are those controls and other procedures that are designed to ensure that material information required to be disclosed by the Company in annual filings, interim filings or other reports filed or submitted under securities legislation is accumulated and communicated to the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

ICFR is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The Company has adopted the Internal Control – Integrated Framework (2013) published by the Committee of Sponsoring Organizations of the Treadway Commission for the three months ended March 31, 2016.

As required by NI 52-109, the Company's CEO and CFO have evaluated the effectiveness of the Company's DC&P and ICFR. Based on such evaluations, they have concluded that the design and operation of the Company's DC&P and ICFR, as applicable, are adequately designed and effective, as at March 31, 2016. No changes were made in the Company's design of ICFR during the three months ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

In designing such controls, it should be recognized that due to inherent limitations, any controls or control systems, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the control system are met. As a result of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, including instances of fraud, if any, have been detected or prevented. These inherent limitations include, without limitation, (i) the possibility that management's assumptions and judgments may ultimately prove to be incorrect under varying conditions and circumstances; or (ii) the impact of isolated errors.

Additionally, controls may be circumvented by unauthorized acts of individuals, by collusion of two or more people, or by management override. The design of any control system is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential conditions. Projections of any evaluations of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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; the ability to obtain reimbursement from Mr. Bennett; 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; the possibility of future increases in the royalty payments made by the Franworks Subsidiary to FW LP and the issuance of common shares by DIV to the Franworks 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 possibility of future increases in the Mr. Lube 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; 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 payment of royalties and management fees from Sutton and Mr. Lube and adjustments thereto; 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 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 Mr. Lube; the closure of restaurants by Franworks, failure to successfully process the Elephant & Castle trademark application in the United States; 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; 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, Sutton, Mr. Lube 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, Sutton, and 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.