

# **DIVERSIFIED**

—▶ DIV ◀—

**ROYALTY CORP.**

**Management's Discussion and Analysis**  
**For the three and nine months ended September 30, 2016**

**November 14, 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 and nine months ended September 30, 2016 should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and nine months ended September 30, 2016 (the "Q3 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](http://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 and nine months ended September 30, 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 September 30, 2016, Franworks had 99 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 September 30, 2016, there were 5,400 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 September 30, 2016, Mr. Lube had 170 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 and the claim by a US contractor, as further described under the section "Contingencies and Provisions". 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<i>Consolidated:</i>				
Revenue	\$ 7,318	\$ 5,717	\$ 21,800	\$ 12,168
Royalty income	7,242	5,668	21,574	12,116
Normalized EBITDA <sup>1</sup>	6,873	5,377	20,369	10,981
Distributable cash <sup>1</sup>	6,314	4,980	18,699	10,187
Income from operations	4,913	3,893	13,635	7,460
Net income (loss)	(337)	2,428	5,400	4,297
Dividends declared	6,373	4,893	19,062	11,458
Basic earnings (loss) per share	\$ 0.00	\$ 0.03	\$ 0.05	\$ 0.06
Diluted earnings (loss) per share	0.00	0.03	0.05	0.06
Distributable cash flow per share <sup>1</sup>	0.06	0.06	0.16	0.13
Dividends declared per share	0.06	0.05	0.17	0.14
Total assets <sup>2</sup>	\$ 296,642	\$ 312,429	\$ 296,642	\$ 312,429
Total non-current financial liabilities <sup>2</sup>	40,851	55,820	40,851	55,820

### *Franworks Royalty Pool:*

Number of restaurants <sup>2</sup>	82	82	82	82
System sales	\$ 49,198	\$ 54,219	\$ 150,477	\$ 157,188
Royalty income <sup>3</sup>	2,981	3,282	9,154	9,613
SSSG <sup>1,4</sup>	-9.7%	-2.2%	-6.6%	0.4%

### *Sutton Royalty Pool<sup>5</sup>:*

Number of agents <sup>2</sup>	5,400	\$ 5,185	5,400	\$ 5,185
Royalty income and management fees	\$ 954	900	\$ 2,754	1,020

### *Mr. Lube Royalty Pool<sup>6</sup>:*

Number of locations <sup>2</sup>	117	117	117	117
System sales	\$ 47,729	\$ 21,738	\$ 139,736	\$ 21,738
Royalty income and management fees <sup>7</sup>	3,383	1,535	9,892	1,535
SSSG <sup>1</sup>	1.4%	3.3%	4.4%	2.5%

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 \$0.03 million for the three months and \$0.1 million for the nine months ended September 30, 2016 on lost system sales of \$0.5 million and \$2.1 million, respectively. There was a make-whole payment of \$0.03 million for the three months and \$0.2 million for the nine months ended September 30, 2015 on lost system sales of \$0.5 million and \$3.1 million, respectively.

4) The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the third quarter of 2016 was -9.7% in Canadian dollars (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -9.6%). The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the first nine months of 2016 was -6.6% in Canadian dollars (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -6.9%).

5) The Sutton Acquisition closed on June 19, 2015.

6) The Mr. Lube Acquisition closed on August 19, 2015.

7) Royalty income includes make-whole payments of \$0.01 million for the three months and \$0.03 million for the nine months ended September 30, 2016 on lost system sales of \$0.2 million and \$0.4 million, respectively.

## 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Number of restaurants <sup>1</sup>	82	82	82	82
System sales	\$ 49,198	\$ 54,219	\$ 150,477	\$ 157,188
Royalty income <sup>2</sup>	\$ 2,981	\$ 3,282	\$ 9,154	\$ 9,613

1) At period end.

2) Royalty income includes Franworks Make-Whole Payments of \$0.03 million for the three months and \$0.1 million for the nine months ended September 30, 2016 on lost system sales of \$0.5 million and \$2.1 million, respectively. There was a Franworks Make-Whole Payment of \$0.03 million for the three months and \$0.2 million for the nine months ended September 30, 2015 on lost system sales of \$0.5 million and \$3.1 million, respectively.

### Acquisition of FW Rights

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 ("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 OJFG 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 Franworks 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.

### Franworks Royalty Pool Amendment

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 OJFG for such additional royalty revenue. The consideration was 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 OJFG 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 had planned to issue 637,051 DIV shares to OJFG, prior to entering into the Sale Agreement described below.

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.

There was no adjustment to the Franworks Royalty Pool on April 1, 2016.

### Sale of FW Rights

On August 31, 2016, DIV and FW LP entered into an agreement (the "Sale Agreement") to sell the FW Rights for \$90.0 million, the cancellation of 8,992,187 DIV shares held by OJFG, the extinguishment of OJFG's right to receive the 637,051 DIV shares related to the 2015 Franworks Royalty Pool Adjustment, and the extinguishment of OJFG's right to receive accrued dividends on the 637,051 shares to the date of closing.

The Sale Agreement is part of a larger transaction whereby Cara Operations Limited ("Cara") has entered into an agreement with OJFG to acquire majority control of OJFG for \$93.0 million. \$90.0 million of Cara's \$93.0 million investment in OJFG will be used to fund the acquisition of the FW Rights by OJFG. Cara's investment in OJFG and DIV's sale of the FW Rights to OJFG are expected to close concurrently late in 2016. Upon closing, Cara will control OJFG and will therefore indirectly own and control the FW Rights.

Completion of the sale of the FW Rights is subject to a number of conditions customary for a transaction of this nature.

DIV expects to use \$15.0 million of the cash proceeds from the sale of the FW Rights to extinguish its \$15.0 million term loan and the remaining \$75.0 million will be added to DIV's cash balance, net of transaction costs paid.

In connection with entering into the Sale Agreement, the Company presented the FW Rights as an asset held for sale and recorded a non-cash impairment loss of \$1.4 million during the period. The non-cash impairment loss was recorded as the difference between (i) the estimated fair value of the proceeds receivable as per the Sale Agreement, less estimated transaction costs; and (ii) the original carrying value of the FW Rights asset. This impairment loss may be adjusted based on the deemed share price and the final transaction costs on the closing date of the sale.

### Third Quarter

System sales in the Franworks Royalty Pool for the third quarter of 2016 were \$49.2 million compared to \$54.2 million for the same period in 2015. The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the second quarter of 2016 was -9.7%<sup>1</sup> in Canadian dollars. SSSG results for Franworks continue to be challenged by current economic conditions in Alberta and other prairie provinces. Franworks' restaurants generated positive SSSG in Ontario.

For the third 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 (19.2% of DIV's consolidated royalty income). The remaining 40 restaurants in the Franworks Royalty Pool generated \$1.6 million of royalty income (21.9% of DIV's consolidated royalty income).

### Year-To-Date

System sales in the Franworks Royalty Pool for the nine months ended September 30, 2016 were \$150.5 compared to \$157.2 million in 2016. The decrease in system sales was due to the negative SSSG during the period. The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the nine months ended September 30, 2016 was -6.6%<sup>2</sup> in Canadian dollars.

### Sutton

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

(000's, except number of agents)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Number of agents <sup>1</sup>	5,400	5,185	5,400	5,185
Royalty income <sup>2</sup>	\$ 929	\$ 875	\$ 2,679	\$ 992
Management fees <sup>2</sup>	\$ 25	\$ 25	\$ 75	\$ 28

1) At period end.

2) The Sutton Acquisition was completed on June 19, 2015.

<sup>1</sup> Excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -9.6%.

<sup>2</sup> Excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -6.9%.

### Acquisition of SGRS Rights

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 "SGRS Rights") for a purchase price of \$30.6 million.

Immediately following the closing of the Sutton Acquisition, the Company licensed the SGRS 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 1<sup>st</sup> 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.

### Sutton Royalty Pool Amendment and Sutton Royalty Rate Increase

On July 4, 2016, the Sutton Royalty Pool was adjusted to increase the number of agents in the Sutton Royalty Pool from 5,185 to 5,400 agents. The addition of 215 new agents to the Sutton Royalty Pool will generate additional royalty revenue of approximately \$0.15 million. Effective July 1, 2016, the Sutton monthly royalty rate increased from \$56.25 per agent to \$57.375 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2016.

The consideration for the additional royalty income is approximately \$1.0 million, and was calculated using a 7.5% discount of the estimated royalty revenue added to the Sutton Royalty Pool. The consideration was 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 May 24, 2016. Based on a weighted average closing price of \$2.2926 per share for such period, the consideration payable for the net additional royalty income was paid to Sutton in the form of 455,392 DIV shares, which were issued to Sutton on July 4, 2016.

### Third Quarter and Year-To-Date

Sutton made its scheduled fixed monthly royalty and management fee payments during the three months and nine months ended September 30, 2016. Sutton's third quarter and year-to-date results were in line with expectations.

For the third quarter of 2016, 70 of the 5,400 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 5,330 agents in the Sutton Royalty Pool generated \$0.92 million of royalty income (12.7% of DIV's consolidated royalty income).

### 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Number of locations <sup>1</sup>	117	117	117	117
System sales <sup>2</sup>	\$ 47,729	\$ 21,738	\$ 139,736	\$ 21,738
Royalty income <sup>2,3</sup>	\$ 3,332	\$ 1,511	\$ 9,741	\$ 1,511
Management fees <sup>2</sup>	\$ 51	\$ 24	\$ 151	\$ 24

1) At period end.

2) The Mr. Lube Acquisition was completed on August 19, 2015.

3) Royalty income includes Mr. Lube Make-Whole Payments of \$0.01 million for the three months and \$0.03 million for the nine months ended September 30, 2016 on lost system sales of \$0.2 million and \$0.4 million, respectively.

### Acquisition of ML Rights

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.

### Third Quarter

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool was \$47.7 million for the third quarter of 2016. As the Mr. Lube Acquisition was completed on August 19, 2015, system sales during the third quarter of 2015 only included amounts for the period from August 19, 2015 to September 30, 2015. If the Mr. Lube Acquisition had closed on January 1, 2015, system sales for the locations within the Mr. Lube Royalty Pool would have been \$47.3 million for the third quarter of 2015. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was 1.4% for the third quarter of 2016.

For the third 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 (9.5% of DIV's consolidated royalty income). The remaining 95 Mr. Lube locations in the Mr. Lube Royalty Pool generated \$2.6 million of royalty income (36.5% of DIV's consolidated royalty income).

### Year-To-Date

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool was \$139.7 million for the nine months ended September 30, 2016. If the Mr. Lube Acquisition had closed on January 1, 2015, system sales for the locations within the Mr. Lube Royalty Pool would have been \$134.1 million for the nine months ended September 30, 2015. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was 4.4% for the nine months ended September 30, 2016. The strong nine month SSSG was due to continued overall strong business execution as well as a shift in the timing of key marketing campaigns in the first quarter of 2016.

## EBITDA, Normalized EBITDA and Distributable Cash

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

(000's)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
<b>Net income (loss)</b>	\$ (337)	\$ 2,428	\$ 5,400	\$ 4,297
Interest expense on credit facilities	559	397	1,670	794
Income taxes	4,649	873	6,800	2,292
<b>EBITDA<sup>1</sup></b>	<b>4,871</b>	<b>3,698</b>	<b>13,870</b>	<b>7,383</b>
Adjustments:				
Share-based compensation	187	63	507	190
Litigation	325	1,104	4,779	3,014
Impairment loss	1,448	-	1,448	-
Royalty transition credit	-	284	-	284
Other finance income, net	80	195	(167)	77
Fair value adjustment on interest rate swaps	(38)	-	(68)	-
CFO retention bonus	-	33	-	33
<b>Normalized EBITDA<sup>1</sup></b>	<b>6,873</b>	<b>5,377</b>	<b>20,369</b>	<b>10,981</b>
Less: interest expense on credit facilities	559	397	1,670	794
<b>Distributable cash<sup>1</sup></b>	<b>\$ 6,314</b>	<b>\$ 4,980</b>	<b>\$ 18,699</b>	<b>\$ 10,187</b>
Distributable cash flow per share <sup>1</sup>	\$ 0.0554	\$ 0.0554	\$ 0.1649	\$ 0.1335
Dividends declared per share	0.0556	0.0490	0.1669	0.1432
<b>Payout Ratio</b>	<b>100.3%</b>	<b>88.4%</b>	<b>101.2%</b>	<b>107.3%</b>

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*

For the three months ended September 30, 2016, distributable cash increased by \$1.3 million (\$nil per share) to \$6.3 million (\$0.0554 per share), compared to the same prior period. The increase was due to additional royalty income generated from the Mr. Lube Acquisition on August 19, 2015.

During the nine months ended September 30, 2016, distributable cash increased by \$8.5 million (\$0.0314 per share) to \$18.7 million (\$0.1649 per share), compared to the same prior period. This 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 third quarter of 2016 compared to \$4.9 million (\$0.0490 per share) during the third quarter of 2015. The increase was primarily related to (i) the Sutton Acquisition and Mr. Lube Acquisition, as described under the section "Dividends to Shareholders", (ii) 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, and (iii) the issuance of 455,392 common shares to Sutton on July 4, 2016. The increase in the dividends declared per share was driven by the Sutton Acquisition and Mr. Lube Acquisition.

During the nine months ended September 30, 2016, the Company declared dividends in the aggregate amount of \$19.1 million (\$0.1669 per share), compared to \$11.5 million (\$0.1432 per share) in the same prior period. 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, (ii) the issuance of 1,835,728 common shares to OJFG on April 1, 2015, (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, and (iv) the issuance of 455,392 common shares to Sutton on July 4, 2016. 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.

For the three months ended September 30, 2016, the Company's payout ratio was 100.3%, compared to 88.4% for the same period in 2015. The payout ratio for the third quarter of 2015 benefited from additional royalty income from the Sutton Acquisition and Mr. Lube Acquisition, while the related increase in dividends per share occurred in August 2015 and October 2015, respectively.

For the nine months ended September 30, 2016, the Company's payout ratio was 101.2%, compared to 107.6% for the same period in 2015. Although the payout ratio for the nine months ended September 30, 2015 benefited from the timing of the dividend increase as described above, this was more than offset 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 97.7% for the three months and 97.2% for the nine months ended September 30, 2016. As at September 30, 2016, the DRIP participation rate was 4.3%.

## 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 and nine months ended September 30, 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 September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Royalty income	\$ 7,242	\$ 5,668	\$ 21,574	\$ 12,116
Management fees	76	49	226	52
	<u>7,318</u>	<u>5,717</u>	<u>21,800</u>	<u>12,168</u>
Expenses				
Salaries and benefits	291	208	885	535
Share-based compensation	187	63	507	190
General and administration	107	95	361	427
Professional fees	47	70	185	258
Litigation	325	1,104	4,779	3,014
Royalty transition credit	-	284	-	284
Impairment loss	1,448	-	1,448	-
	<u>2,405</u>	<u>1,824</u>	<u>8,165</u>	<u>4,708</u>
Income from operations	4,913	3,893	13,635	7,460
Interest expense on credit facilities	(559)	(397)	(1,670)	(794)
Other finance income (costs), net	(80)	(195)	167	(77)
Fair value adjustment on interest rate swaps	38	-	68	-
Net finance costs	<u>(601)</u>	<u>(592)</u>	<u>(1,435)</u>	<u>(871)</u>
Income before income taxes	4,312	3,301	12,200	6,589
Income tax expense	4,649	873	6,800	2,292
Net income (loss) and comprehensive income (loss)	<u>\$ (337)</u>	<u>\$ 2,428</u>	<u>\$ 5,400</u>	<u>\$ 4,297</u>

## Revenue

### Third Quarter

Revenue was \$7.3 million in the third quarter of 2016, compared to \$5.7 million in the third quarter of 2015. The increase in revenue was due to the addition of the Mr. Lube Acquisition effective August 19, 2015, which contributed an additional \$1.8 million of revenues. This increase was partially offset by negative SSSG at Franworks.

### Year-To-Date

Revenue was \$21.8 million for the nine months ended September 30, 2016, compared to \$12.2 million in the prior year. 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 an additional \$1.7 million and \$8.4 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

### Third Quarter and Year-To-Date

Salaries and benefits increased by \$0.1 million in the three months and \$0.4 million in the nine months ended September 30, 2016, compared to the same prior periods. These increases are primarily due to the incentive compensation of the Company's CEO and President, partially offset by the compensation received in restricted share units ("RSUs") as discussed under the section "Share Capital – Restricted Share Units". The compensation received in RSUs is recognized as share-based compensation.

## **Share-based Compensation**

### *Third Quarter and Year-To-Date*

Share-based compensation increased by \$0.1 million for the three months and \$0.3 million for the nine months ended September 30, 2016, compared to the same prior periods due to the issuance of RSUs in 2015 and 2016 as discussed under the section “Share Capital – Restricted Share Units”.

## **General and Administration**

### *Third Quarter*

General and administration expense for the three months ended September 30, 2016 was comparable to same prior period.

### *Year-To-Date*

General and administration expense for the nine months ended September 30, 2016 decreased by \$0.1 million due to savings in insurance costs.

## **Professional Fees**

### *Third Quarter and Year-To-Date*

Professional fees are comprised of legal, audit, tax, and advisory services. Professional fees for three months and nine months ended September 30, 2016 decreased in comparison to the same prior periods due to savings in accounting and advisory costs.

## **Litigation**

### *Third Quarter*

Litigation expense decreased by \$0.8 million in the third quarter of 2016, compared to the same prior period. Litigation expense in the third quarter of 2016 was related to the counterclaim and defense against a U.S. contractor of \$0.3 million. Litigation expense in the third quarter of 2015 was related to the John Bennett litigation. Additional information on these matters is discussed under the section “Contingencies and Provisions”.

### *Year-To-Date*

Litigation expenses increased by \$1.8 million for the nine months ended September 30, 2016, compared to the same prior period. This increase was due to the John Bennett related litigation, counterclaim and defense costs against a U.S. contractor and the settlement of a commission dispute. Additional information on these matters is discussed under the section “Contingencies and Provisions”.

## **Royalty Transition Credit**

### *Third Quarter and Year-to-date*

The monthly royalty payments received from Mr. Lube related to the periods ending on or before December 31, 2015 were subject to a royalty transition credit of \$0.2 million per month, pro-rated for partial payment periods. The royalty transition credit for the three months and nine months ended September 30, 2015 was \$0.3 million.

## **Impairment Loss**

### *Third Quarter and Year-to-date*

During the three months and nine months ended September 30, 2016, the Company recorded a non-cash impairment loss of \$1.4 million related to the FW Rights as disclosed under the section “Royalty Pools – Franworks”.

## Interest Expense on Credit Facilities

### Third Quarter

Interest expense on credit facilities increased by \$0.2 million in the third quarter of 2016, compared to the same prior period. This increase was due to additional interest incurred on the credit facility related to financing the Mr. Lube Acquisition, which occurred on August 19, 2015.

### Year-To-Date

Interest expense on credit facilities increased by \$0.9 million for the nine months ended September 30, 2016 compared to the same prior period. This increase was due to additional interest expense incurred on the credit facilities related to financing the Sutton Acquisition and Mr. Lube Acquisition, which occurred on June 19, 2015 and August 19, 2015, respectively.

## Other Finance Income (Costs)

The following table summarizes other finance income (costs), for the three and nine months ended September 30, 2016.

(000's)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Foreign exchange gain (loss)	\$ (34)	\$ (97)	\$ 307	\$ (105)
Interest expense on promissory note	-	(55)	-	(55)
Finance income	8	-	20	172
Amortization of deferred financing fees	(54)	(39)	(160)	(73)
Adjustment to and unwinding of discount on financial liabilities	-	(4)	-	(16)
	\$ (80)	\$ (195)	\$ 167	\$ (77)

### Third Quarter

Other finance costs decreased by \$0.1 million in the third quarter of 2016 compared to the same prior period. The decrease was due to a lower foreign exchange loss incurred during the period. In addition, the third quarter of 2015 included interest expense on the promissory note.

### Year-To-Date

During the nine months ended September 30, 2016, other finance income was \$0.2 million. This primarily consists of a foreign exchange gain on U.S. dollar provisions, partially offset by the amortization of deferred financing fees.

During the nine months ended September 30, 2015, other finance costs was \$0.1 million. This primarily consists of a foreign exchange loss on U.S. dollar provisions, the amortization of deferred financing fees and interest expense on a promissory note, which were partially offset by interest income.

## Income Tax Expense

### Third Quarter

Income tax expense increased by \$3.8 million in the three months ended September 30, 2016, compared to the same prior period. This increase was primarily due to deferred taxes of \$3.7 million related to the FW Rights transaction (refer to note 5 of the Q3 2016 Financial Statements). In addition, after excluding the impairment loss of \$1.4 million, which is non-deductible for tax purposes, the Company incurred higher income before taxes during the third quarter of 2016 compared to the prior period.

### Year-To-Date

Income tax expense increased by \$4.5 million in the nine months ended September 30, 2016, compared to the same prior period. This increase was primarily due to deferred taxes of \$3.7 million related to the FW Rights transaction and higher income before taxes, after excluding the impairment loss of \$1.4 million, which is non-deductible for tax purposes.

### *Non-Capital Loss Carry-Forwards and Eligible Capital Expenditures*

As at September 30, 2016, the Company has approximately \$17.3 million of non-capital losses (December 31, 2015 - \$30.4 million). In addition, the Company has eligible capital expenditures related to the FW Rights, SGRS Rights, and ML Rights, of approximately \$181.3 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:

<b>Month</b>	<b>Record date</b>	<b>Payment date</b>	<b>Amount / share</b>
November 2016	November 15, 2016	November 30, 2016	\$ 0.01854
October 2016	October 14, 2016	October 31, 2016	\$ 0.01854
September 2016	September 15, 2016	September 30, 2016	\$ 0.01854
August 2016	August 15, 2016	August 31, 2016	\$ 0.01854
July 2016	July 15, 2016	July 29, 2016	\$ 0.01854
June 2016	June 15, 2016	June 30, 2016	\$ 0.01854
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.

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.

During the nine months ended September 30, 2016, there were 384,938 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)	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015	Q4 2014
Revenue	\$ 7,318	\$ 7,493	\$ 6,989	\$ 7,422	\$ 5,717	\$ 3,535	\$ 2,916	\$ 3,078
Net income (loss)	\$ (337)	\$ 3,692	\$ 2,045	\$ 1,675	\$ 2,428	\$ 679	\$ 1,190	\$ 1,432
Earnings (loss) per common share								
Basic	\$ 0.00	\$ 0.03	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.02
Diluted	\$ 0.00	\$ 0.03	\$ 0.02	\$ 0.01	\$ 0.03	\$ 0.01	\$ 0.02	\$ 0.02

### 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. In addition, the Franworks Royalty Pool was adjusted to add four net new restaurants on April 1, 2015, and the Sutton Royalty Pool was adjusted to add 215 agents on July 4, 2016. These items were partially offset by negative SSSG at Franworks from the second quarter of 2015 to the third quarter of 2016.

### Net Income

Net income reflects the trend in quarterly revenue, offset by fluctuations associated with litigation expense, the impairment loss and income tax expenses / recoveries.

## OUTLOOK

### Mr. Lube

DIV expects Mr. Lube to continue its long history of positive SSSG performance in 2016.

### Franworks

As disclosed under the section "Royalty Pools – Franworks", on August 31, 2016, DIV entered into a Sale Agreement to sell the FW Rights to OJFG. Upon completion of the sale of the FW Rights, the Company's exposure to Alberta will decrease from approximately 30% to 17%.

In addition, DIV expects to use \$15.0 million of the cash proceeds from the sale of the FW Rights to extinguish its \$15.0 million term loan facility currently secured against the FW Rights, with the remaining \$75.0 million will be added to DIV's cash balance, net of transaction costs paid.

### Sutton

Sutton continues to focus on opening new franchise offices and helping their existing franchisees add new agents by investing in training and recruiting resources. DIV expects Sutton to have another solid year in 2016.

## LIQUIDITY AND CAPITAL RESOURCES

### Liquidity

As at September 30, 2016, the Company had cash and equivalents of \$8.0 million and working capital (including cash) of \$97.6 million compared to cash and equivalents of \$8.9 million and working capital (including cash) of \$3.9 million at December 31, 2015. The working capital as at September 30, 2016 reflects the presentation of the FW Rights intangible asset as a current asset held for sale, and the related term loan facility as a current liability.

It is the Company's policy to distribute what it believes to be a sustainable dividend. It is expected that future distributions will be funded by cash flow from operations.

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 September 30, 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 September 30, 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 2.25%; 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 September 30, 2016 and November 14, 2016, there were no amounts drawn under the Company's operating lines of credit.

As at September 30, 2016, the Company and its subsidiaries were in compliance with all financial covenants associated with the term loan facilities and operating lines of credit.

The outstanding principal balance on the FW LP term loan will be repaid upon completion of the sale of the FW Rights as further described under the section "Royalty Pools – Franworks".

### 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	33
ML LP interest rate swap	34,600	3.62%	August 13, 2018	196
	\$ 40,900			229

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)	Nine months ended September 30,	
	2016	2015
Cash from operating activities	\$ 16,461	\$ 6,359
Cash from (used in) financing activities	(17,396)	137,529
Cash used in investing activities	-	(170,449)
Decrease in cash	(935)	(26,561)
Cash, beginning of period	8,889	34,511
Cash, end of period	\$ 7,954	\$ 7,950

### Cash From Operating Activities

Cash from operations in the nine months ended September 30, 2016 increased by \$10.1 million compared to the same prior period. The increase was primarily due to higher income from operations, after adjusting for the non-cash impairment loss, net of changes in non-cash working capital.

### Cash From (Used In) Financing Activities

Cash used in financing activities for the nine months ended September 30, 2016 was related to dividends paid, partially offset by proceeds from the exercise of share options.

Cash from financing activities for the nine months ended September 30, 2015 was related to net proceeds from the issuance of equity and debt, and the exercise of share options. These proceeds were partially offset by dividends paid during the period.

### Cash Used In Investing Activities

Cash used in investing activities for the nine months ended September 30, 2015 relates to the Sutton Acquisition and Mr. Lube Acquisition.

## Contractual Obligations

As at September 30, 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	\$ 1,362	\$ 1,362	\$ 1,362	\$ -	\$ -	\$ -	\$ -
Long-term bank loans <sup>1</sup>	55,548	59,469	553	17,017	41,899	-	-
Total contractual obligations	\$ 56,910	\$ 60,831	\$ 1,915	\$ 17,017	\$ 41,899	\$ -	\$ -

1) Includes the impact of interest rate swap agreements.

## FINANCIAL AND OTHER INSTRUMENTS

As at September 30, 2016, the Company's financial instruments consist of: cash, royalties and management fees receivable, amounts receivable, accounts payable and accrued liabilities, 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. During the nine months ended September 30, 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 chartered 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 September 30, 2016, the Company had a cash and cash equivalents balance of \$8.0 million (December 31, 2015 - \$8.9 million) and working capital of \$97.6 million (December 31, 2015 - working capital of \$3.9 million). The working capital as at September 30, 2016 reflects the presentation of the FW Rights intangible asset as a current asset held for sale, and the related term loan facility as a current liability. DIV expects to use \$15.0 million of the cash proceeds from the sale of the FW Rights to extinguish the loan facility held by FW LP. In addition, 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 provision for legal costs the Company recovered from the insurance underwriter, as described under "Contingencies and Provisions – Insurance Underwriter Provision". As at September 30, 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 September 30, 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 7 of the Q3 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 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 was expected to occur on or before his sentencing date.

On August 9, 2016, the U.S. courts convicted and sentenced Mr. Bennett. On August 15, 2016, the Company filed a motion in Ontario court to set aside the Interim Order and a court date was set for October 5, 2016 for the motion to be heard. This court date was subsequently rescheduled to November 17, 2016. In addition, the Company was successful in obtaining an interim stay on any further payments under the Interim Order, pending the November 17, 2016 hearing.

The Company has paid all legal costs reimbursable to Mr. Bennett that were required to be paid before August 15, 2016, the day that the Company received an interim stay on the Interim Order. The Company has received invoices totaling US\$0.3 million related to Mr. Bennett's legal costs that were payable subsequent to August 15, 2016. The Company has not accrued for these additional costs in its financial statements as it does not believe it is required to pay for such costs in light of the conviction and sentencing of Mr. Bennett on August 9, 2016.

### **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 September 30, 2016, the Company has recovered \$8.6 million (or US\$6.9 million) from the insurance underwriter.

The Company has initiated a discussion with its insurance provider with respect to its obligations in the event that the Interim Order is set aside.

In the event the Company is liable, it 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, Severson Environmental Services Inc. ("Severson"), a prime contractor 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, Severson 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. In October 2015, the Company filed a counterclaim against Severson. In December 2015, the Company and Severson agreed to non-binding mediation. This mediation was unsuccessful in resolving this issue.

Management intends to defend against this claim vigorously and has prepared a significant portion of its defense and counterclaim against Severson. 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 September 30, 2016, there were 114,253,487 common shares issued and outstanding compared to 113,065,496 as at December 31, 2015. During the nine months ended September 30, 2016, there were 455,392 common shares issued on the

Sutton Royalty Pool Amendment, 384,938 common shares issued under the DRIP, 324,100 stock options exercised for shares, and 23,561 RSUs that were settled for common shares.

On November 10, 2016, the Company held a Special Meeting whereby shareholders passed a special resolution to approve the reduction of the stated capital of the Company's common shares to \$200.0 million, with a corresponding aggregate increase in retained earnings and contributed surplus.

As at November 14, 2016, there were 114,353,771 common shares issued and outstanding.

### **Share Options**

As at September 30, 2016, there were 284,400 share options outstanding, compared to 685,500 as at December 31, 2015. During the nine months ended September 30, 2016, there were 324,100 share options exercised for common shares and 77,000 share options expired. The share options outstanding are exchangeable into common shares at exercise prices ranging from \$1.50 to \$1.79 per share. No share options have been issued since August 2013.

As at November 14, 2016, there were 232,900 share options outstanding.

### **Restricted Share Units**

As at September 30, 2016, there were 530,746 RSUs outstanding, compared to 443,218 RSUs as at December 31, 2015. During the nine months ended September 30, 2016, there were 105,821 RSUs granted and 36,757 RSUs issued as dividend equivalents, in accordance with the Company's long-term incentive plan. In addition, there were 45,050 RSUs that vested, of which 23,561 RSUs were settled for common shares and the remainder was settled in cash.

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, on April 11, 2016, the Company issued 11,812 RSUs to three directors and 20,430 RSUs to the Company's President and CEO with a grant date fair value of \$2.29 per RSU. On August 16, 2016, the Company granted 21,769 RSUs to three directors and 12,585 RSUs to the Company's President and CEO with a grant date fair value of \$2.15 per RSU. These RSUs vest in their entirety on March 31, 2017, and will be settled in common shares.

In addition, as part of the annual grant of RSUs to certain directors, on April 11, 2016, the Company issued 39,225 RSUs to certain directors at a grant date fair value of \$2.29 per RSU and will vest in their entirety on April 1, 2019.

The outstanding RSUs will be settled in common shares, unless the RSU holder elects to settle a portion of the RSUs in cash to pay the applicable withholding taxes.

As at November 14, 2016, there were 534,610 RSUs outstanding.

### **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 OJFG 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 OJFG. As at September 30, 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 OJFG. 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 September 30, 2016, Franworks is required to retain a minimum of 5,484,778 common shares of DIV.

Franworks was considered to be a related party of the Company by virtue of a common director, Mr. Derek Doke, of Franworks and the Company (President and CEO of Franworks). On August 31, 2016, Mr. Doke resigned as a director of the Corporation.

### **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*, 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 Q3 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, SGRS Rights, and ML Rights at cost comprising the amount of consideration paid for the FW Rights, SGRS Rights, and ML Rights. The intangible assets are not amortized as they have an indefinite life.

DIV tests the FW Rights, SGRS 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, SGRS 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, impairment of intangible asset, other finance income (costs), and fair value adjustment on interest rate swaps. 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 needs and litigation 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 provide 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 Q3 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](http://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 nine months ended September 30, 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 September 30, 2016. No changes were made in the Company's design of ICFR during the nine months ended September 30, 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”, “continue”, “believe”, “could”, “estimate”, “expect”, “intend”, “may”, “plan”, “predict”, “project”, “will”, “would”, “should” 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 sale of the FW Rights, including the terms thereof and the expected timing therefore; the expected use by DIV of the cash proceeds from the sale of FW Rights, including the use of approximately \$15 million of cash proceeds to extinguish existing term debt and the use of the remainder to pursue the acquisition of additional royalty streams; the expected impact of the sale of the FW Rights on DIV, including DIV’s exposure to Alberta; DIV’s expectations with respect to Mr. Lube’s SSSG for the remainder of 2016; DIV’s expectations for Sutton’s performance for the remainder of 2016; Mr. Lube and Sutton’s performance for the remainder of 2016; 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 OJFG to FW LP and the issuance of common shares by DIV to OJFG 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 sale of the FW Rights and the expected use by DIV of the cash proceeds from the sale of the FW Rights; 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 successfully 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 Severson 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.