DIVERSIFIED

DIV

ROYALTY CORP.

Management's Discussion and Analysis

For the three months and year ended December 31, 2016

March 28, 2017

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

BASIS OF PRESENTATION

This management's discussion and analysis ("MD&A") in respect of the results of operations of Diversified Royalty Corp. ("DIV" or the "Company") for the three months and year ended December 31, 2016 should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2016 (the "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").

Additional information related to the Company, including its Annual Information Form dated March 28, 2017 for the year ended December 31, 2016, is available on SEDAR at www.sedar.com.

Statements made in this MD&A and in the 2016 Financial 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 in this MD&A. For further information on these measures, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.

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 consolidated financial statements and MD&A of Mr. Lube Canada Limited Partnership ("Mr. Lube") for the year ended December 31, 2016. In 2016, as DIV did not view the intangible assets acquired from Sutton Group Realty Services Ltd. ("Sutton") to be a significant asset to the Company. Accordingly, Sutton did not file financial statements and MD&A on SEDAR for any period in 2016. With the sale of the intangible assets of Franworks Franchise Corp. ("Franworks") having completed on November 27, 2016, the Company expects that it will generate a significant amount of its total royalty revenue from the intangible assets of Sutton in the first quarter of 2017. As a result, Sutton is expected to re-commence filing separate financial statements and MD&A on SEDAR starting with the first quarter of 2017.

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 were based on top-line system sales of Franworks restaurants in the royalty pool (the "Franworks Royalty Pool"). On November 27, 2016, the Company completed the sale of the trademarks and other intellectual property rights related to the Franworks business (the "Sale Transaction"), as disclosed under the section "Royalty Pools – Franworks". As a result, the year ended December 31, 2016 includes royalty income from Franworks from January 1, 2016 to November 27, 2016;
- Sutton: royalties are based on the number of agents in the royalty pool (the "Sutton Royalty Pool"). As at December 31, 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 December 31, 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. 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 December 31, 2016		2015		Year ended December 31, 2016		2015
Consolidated:								
Revenue[1]	$	6,371	$	7,422	$	28,171	$	19,590
Royalty income[1]		6,295		7,347		27,869		19,463
Normalized EBITDA[2]		5,797		6,880		26,166		17,861
Distributable cash[2]		5,308		6,318		24,007		16,505
Income from operations		6,066		3,324		19,701		10,784
Net income		5,285		1,675		10,685		5,972
Dividends declared		6,194		6,284		25,122		17,698
Basic earnings per share	$	0.05	$	0.01	$	0.09	$	0.07
Diluted earnings per share		0.05		0.01		0.09		0.07
Distributable cash flow per share[2]		0.05		0.06		0.21		0.19
Dividends declared per share		0.06		0.06		0.22		0.20
Total assets[3]	$	250,223	$	304,535	$	250,223	$	304,535
Total non-current financial liabilities[3]		40,756		55,685		40,756		55,685
Franworks Royalty Pool[1]:								
Number of restaurants[3]		-		82		-		82
System sales	$	30,640	$	52,942	$	181,117	$	210,130
Royalty income[4]		1,870		3,182		11,024		12,795
SSSG[2, 5]		-7.1%		-1.9%		-6.7%		-0.8%
Sutton Royalty Pool[6]:								
Number of agents[3]		5,400	$	5,185		5,400	$	5,185
Royalty income and management fees	$	954		900	$	3,708		1,920
Mr. Lube Royalty Pool[7]:								
Number of locations[3]		117		117		117		117
System sales	$	50,102	$	47,344	$	189,838	$	69,082
Royalty income and management fees[8]		3,547		3,340		13,439		4,875
SSSG[2]		6.2%		-0.2%		4.9%		1.8%

1) On November 27, 2016, the Company completed the Sale Transaction. As a result, the year ended December 31, 2016 includes royalty income from Franworks from January 1, 2016 to November 27, 2016.
2) 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.
3) At period end.
4) Royalty income from Franworks includes make-whole payments of $0.03 million for the three months and $0.15 million for the year ended December 31, 2016 on lost system sales of $0.5 million and $2.6 million, respectively. Royalty income from Franworks includes make-whole payments of $0.2 million for the year ended December 31, 2015 on lost system sales of $3.1 million.
5) The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the period from October 1, 2016 to November 27, 2016 was -7.1% in Canadian dollars (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -7.3%). The SSSG of the 82 Franworks restaurants in the Franworks Royalty Pool for the period from January 1, 2016 to November 27, 2016 was -6.7% in Canadian dollars (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG of the 82 Franworks restaurants was -7.0%).
6) The Sutton Acquisition closed on June 19, 2015.
7) The Mr. Lube Acquisition closed on August 19, 2015.
8) Royalty income from Mr. Lube includes make-whole payments of $0.01 million for the three months and $0.04 million for the year ended December 31, 2016 on lost system sales of $0.2 million and $0.6 million, respectively.

ROYALTY POOLS

Franworks

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

	Three months ended December 31,		Year ended December 31,	
(000's, except number of restaurants)	2016	2015	2016	2015
Number of restaurants[1]	-	82	-	82
System sales	$ 30,640	$ 52,942	$ 181,117	$ 210,130
Royalty income[2]	$ 1,870	$ 3,182	$ 11,024	$ 12,795

1) At period end.
2) Royalty income includes Franworks make-whole payments of $0.03 million for the three months and $0.15 million for the year ended December 31, 2016 on lost system sales of $0.5 million and $2.6 million, respectively. There was a Franworks make-whole payment of $0.2 million for the year ended December 31, 2015 on lost system sales of $3.1 million.

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"). 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.

Franworks Royalty Pool Amendment

On 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 (the "2015 Franworks Royalty Pool Amendment"). The initial consideration for the estimated net additional royalty revenue was $4.9 million, representing 80% of the total estimated consideration of $6.2 million payable to OJFG for such additional royalty revenue. This was paid to OJFG on April 1, 2015 in the form of 1,835,728 DIV shares, based on a volume weighted average closing price of $2.69 per share for the 20-day period ending on March 25, 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 was determined to be $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 Transaction 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 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 Transaction was part of a larger transaction whereby Cara Operations Limited ("Cara") acquired majority control of OJFG for $93.0 million. $90.0 million of Cara's $93.0 million investment in OJFG was 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 closed concurrently on November 27, 2016.

DIV used $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 was added to DIV's cash balance, net of transaction costs paid.

In connection with the sale of the FW Rights, the Company recorded a non-cash impairment loss of $2.2 million during the year ended December 31, 2016.

Fourth Quarter and Year

System sales in the Franworks Royalty Pool for the three months and year ended December 31, 2016 decreased when compared to the same prior periods. The decrease in system sales for both periods was due to the sale of the FW Rights on November 27, 2016 and negative SSSG.

Sutton

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

	Three months ended December 31,				Year ended December 31,			
(000's, except number of agents)		**2016**		**2015**		**2016**		**2015**
Number of agents[1]		5,400		5,185		5,400	$	5,185
Royalty income[2]	$	929	$	875	$	3,608	$	1,867
Management fees[2]	$	25	$	25	$	100	$	53

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

Acquisition of SGRS Rights

On June 19, 2015, the Company 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 (the "Sutton Acquisition").

Immediately following the closing of the Sutton Acquisition, the Company licensed the SGRS Rights to Sutton for 99 years in exchange for an initial royalty payment equal to $56.25 per agent per month (the "Sutton Royalty Rate"), based on a determined number of agents in the Sutton Royalty Pool. The Sutton Royalty Rate grows by 2.0% per year, effective July 1st of each year, with the first such increase taking effect on July 1, 2016. In addition, Sutton pays 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. On 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 addition of agents to the Sutton Royalty Pool was $1.0 million. This was paid to Sutton on July 4, 2016 in the form of 455,392 DIV shares, based on a volume weighted average closing price of $2.29 per share for the 20-day period ending May 24, 2016.

Fourth Quarter and Year

Sutton made its scheduled fixed monthly royalty and management fee payments during the three months and year ended December 31, 2016. Sutton's fourth quarter and year-to-date results were in line with expectations.

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 December 31, 2016		Three months ended December 31, 2015		Year ended December 31, 2016		Year ended December 31, 2015
Number of locations[1]		117		117		117	$ 117
System sales[2]	$	50,102	$	47,344	$	189,838	$ 69,082
Royalty income[2, 3]	$	3,496	$	3,290	$	13,237	$ 4,801
Management fees[2]	$	51	$	50	$	202	$ 74

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 $0.04 million for the year ended December 31, 2016 on lost system sales of $0.2 million and $0.6 million, respectively.

Acquisition of ML Rights

On August 19, 2015, the Company 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 (the "Mr. Lube Acquisition").

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 pays 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.

Fourth Quarter

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $50.1 million for the fourth quarter of 2016, compared to $47.3 million in the same prior period. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was 6.2% for the fourth quarter of 2016, driven by continued strong business execution.

In December 2016, Mr. Lube completed a management buy-in. DIV is excited to continue working with the Mr. Lube management team, who are committed to grow the business while exercising prudent stewardship.

Year

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $189.8 million for the year ended December 31, 2016. If the Mr. Lube Acquisition had closed on January 1, 2015, instead of August 19, 2015, system sales for the locations within the Mr. Lube Royalty Pool would have been $181.4 million for the year ended December 31, 2015. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was 4.9% for the year ended December 31, 2016. The strong full year 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 December 31, 2016	2015	Year ended December 31, 2016	2015
Net income	**$ 5,285**	**$ 1,675**	**$ 10,685**	**$ 5,972**
Interest expense on credit facilities	489	562	2,159	1,356
Income taxes	262	629	7,062	2,921
EBITDA[1]	**6,036**	**2,866**	**19,906**	**10,249**
Adjustments:				
Share-based compensation	240	100	747	290
Litigation	(1,263)	3,395	3,516	6,409
Impairment loss	754	-	2,202	-
Royalty transition credit	-	600	-	884
Other finance income, net	162	161	(5)	238
Fair value adjustment on interest rate swaps	(132)	297	(200)	297
Gain on extinguishment of long-term liability	-	(539)	-	(539)
CFO retention bonus	-	-	-	33
Normalized EBITDA[1]	**5,797**	**6,880**	**26,166**	**17,861**
Less: interest expense on credit facilities	489	562	2,159	1,356
Distributable cash[1]	**$ 5,308**	**$ 6,318**	**$ 24,007**	**$ 16,505**
Distributable cash flow per share[1]	$ 0.0478	$ 0.0559	$ 0.2128	$ 0.1929
Dividends declared per share	0.0556	0.0556	0.2225	0.1989
Payout Ratio	**116.3%**	**99.5%**	**104.6%**	**103.1%**

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.

The following table reconciles distributable cash to cash from (used in) operating activities:

(000's)	Three months ended December 31, 2016	2015	Year ended December 31, 2016	2015
Cash from (used in) operating activities	(1,668)	7,036	14,793	13,395
Changes in working capital	8,454	(4,863)	6,106	(4,457)
Litigation expense	(1,263)	3,395	3,516	6,409
Dividends declared but not paid	(204)	26	(70)	70
Interest received	(81)	(16)	(101)	(188)
Foreign exchange loss (gain)	70	77	(237)	182
Interest expense on promissory note	-	43	-	98
Royalty transition credit	-	600	-	884
Payment for tenure liability	-	20	-	79
CFO retention bonus	-	-	-	33
Distributable cash	**5,308**	**6,318**	**24,007**	**16,505**

Distributable Cash

For the three months ended December 31, 2016, distributable cash decreased by $1.0 million ($0.0081 per share) to $5.3 million ($0.0478 per share), compared to the same prior period. The decrease was due to the sale of the FW Rights on November 27, 2016.

During the year ended December 31, 2016, distributable cash increased by $7.5 million ($0.0199 per share) to $24.0 million ($0.2128 per share), compared to the prior year. 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. The increase was partially offset by the sale of the FW Rights on November 27, 2016.

Dividends Declared

The Company declared dividends in the aggregate amount of $6.2 million ($0.0556 per share) in the fourth quarter of 2016, compared to $6.3 million ($0.0556 per share) in the fourth quarter of 2015. The decrease in declared dividends was due to the cancellation of 8,992,187 common shares held by OJFG, in connection with the sale of the FW Rights.

During the year ended December 31, 2016, the Company declared dividends in the aggregate amount of $25.1 million ($0.2225 per share), compared to $17.8 million ($0.1989 per share) in the same prior period. The increase in the dividends declared per share was driven by the increases in the dividend that followed the completion of the Sutton Acquisition and the Mr. Lube Acquisition.

The increase in the aggregate amount of declared dividends was primarily related to: (i) the increase in the dividends declared per share following the completion of each of the Sutton Acquisition and the 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 dividends declared was partially offset by the cancellation of 8,997,187 common shares held by OJFG upon the closing of the sale of the FW Rights.

Payout Ratio

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

The payout ratio for the three months and year ended December 31, 2016 increased, when compared to the same prior periods. These increases were largely due to the sale of the FW Rights on November 27, 2016, which negatively impacted distributable cash for the current periods. During the three months and year ended December 31, 2016, the dividends declared were in excess of distributable cash. The shortfall in distributable cash was funded by the proceeds received from the sale of the FW Rights. The Company intends to use the proceeds from the sale of the FW Rights to fund future royalty acquisitions, with the intention of achieving a payout ratio that approximates 100% over time. However, as the Company has not yet completed a royalty acquisition subsequent to the sale of the FW Rights, the Company expects the payout ratio for the first quarter of 2017 to be higher than the fourth quarter of 2016, and to remain over 100% until such time as further royalty acquisitions are completed. The Company's board of directors reviews the dividend policy on an ongoing basis.

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 109.0% for the three months and 99.8% for the year ended December 31, 2016. As at December 31, 2016, the DRIP participation rate was 7.5%.

RESULTS OF OPERATIONS

The following table sets out select information from the financial statements of the Company together with other data and should be read in conjunction with the 2016 Financial Statements of the Company.

	Three months ended December 31,		Year ended December 31,	
(000's)	2016	2015	2016	2015
Royalty income	$ 6,295	$ 7,347	$ 27,869	$ 19,463
Management fees	76	75	302	127
Revenues	6,371	7,422	28,171	19,590
Expenses				
Salaries and benefits	343	325	1,228	860
Share-based compensation	240	100	747	290
General and administration	149	132	510	559
Professional fees	82	85	267	343
Litigation	(1,263)	3,395	3,516	6,409
Royalty transition credit	-	600	-	884
Gain on extinguishment of long-term liability	-	(539)	-	(539)
Impairment of intangible asset	754	-	2,202	-
Income from operations	6,066	3,324	19,701	10,784
Interest expense on credit facilities	(489)	(562)	(2,159)	(1,356)
Other finance income (costs), net	(162)	(161)	5	(238)
Fair value adjustment on interest rate swaps	132	(297)	200	(297)
Income before income taxes	5,547	2,304	17,747	8,893
Income tax expense	262	629	7,062	2,921
Net income and comprehensive income	$ 5,285	$ 1,675	$ 10,685	$ 5,972

Revenue

Fourth Quarter

Revenue was $6.4 million in the fourth quarter of 2016, compared to $7.4 million in the fourth quarter of 2015. The decrease in revenue was due to the sale of the FW Rights on November 27, 2016, and the negative SSSG at Franworks. This was partially offset by positive SSSG at Mr. Lube.

Year

Revenue was $28.2 million for the year ended December 31, 2016, compared to $19.6 million in the prior year. The increase in revenue was due to the addition of the Sutton royalty stream on June 19, 2015, and the Mr. Lube royalty stream on August 19, 2015. There was also incremental revenue from the net new stores added to the Franworks Royalty Pool on April 1, 2015. These increases were partially offset by sale of the FW Rights and negative SSSG at Franworks.

Salaries and Benefits

Fourth Quarter

Salaries and benefits expense in the fourth quarter of 2016 was comparable to the same prior period.

Year

Salaries and benefits were $1.2 million for the year ended December 31, 2016, compared to $0.9 million in the prior year. The increase was primarily due to the incentive compensation of the Company's CEO and President, partially offset by the compensation received in restricted share units ("RSUs"). The compensation received in RSUs is recognized as share-based compensation.

Share-based Compensation

Fourth Quarter and Year

Share-based compensation increased by $0.1 million for the three months and $0.5 million for the year ended December 31, 2016, compared to the same prior periods. These increases were due to the issuance of additional RSUs in 2016.

General and Administration

Fourth Quarter

General and administration expense in the fourth quarter of 2016 was comparable to same prior period.

Year

General and administration expense decreased by $0.1 million for the year ended December 31, 2016, compared to the prior year. This decrease was due to savings in insurance costs, partially offset by costs incurred for the Special Meeting of shareholders held on November 10, 2016.

Professional Fees

Fourth Quarter

Professional fees are comprised of legal, audit, tax, and advisory services. Professional fees in the fourth quarter of 2016 were comparable to the same prior period.

Year

Professional fees for the year ended December 31, 2016 decreased by $0.1 million compared to the prior year. The decrease was due to savings in legal costs.

Litigation

Fourth Quarter

The Company recorded a net gain of $1.3 million in the fourth quarter of 2016 related to the settlement of both John Bennett's indemnification claim against the Company and the underwriter's claim for repayment of amounts advanced to DIV in respect of Mr. Bennett's past indemnity claims.

The litigation expense in the fourth quarter of 2015 was primarily related to the John Bennett litigation.

Year

Litigation expense for the year ended December 31, 2016 decreased by $2.9 million compared to the prior year. The decrease was due to the settlement of both John Bennett's indemnification claim against the Company and the underwriter's claim for repayment of amounts advanced to DIV in respect of Mr. Bennett's past indemnity claim in respect of which the Company recorded a net gain of $1.3 million.

Royalty Transition Credit

Fourth Quarter and Year

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.

Impairment Loss

Fourth Quarter and Year

Impairment loss for the three months and year ended December 31, 2016 were related to sale of the FW Rights. No impairment losses were recorded in 2015.

Gain on extinguishment of long-term liability

Fourth Quarter and Year

The gain on extinguishment of long-term liability for the three months and year ended December 31, 2015 relates to the de-recognition of the tenure liability payable to John Bennett.

Interest Expense on Credit Facilities

Fourth Quarter

Interest expense on credit facilities decreased by $0.1 million in the fourth quarter of 2016, compared to the same prior period. The decrease was due to the repayment of the $15.0 million term loan facility related to the sale of the FW Rights.

Year

Interest expense on credit facilities increased by $0.8 million for the year ended December 31, 2016 compared to the prior year. The increase was due to additional interest expense incurred on the credit facilities obtained to partially finance the Sutton Acquisition and Mr. Lube Acquisition, which occurred on June 19, 2015 and August 19, 2015, respectively. This was partially offset by the repayment of the $15.0 million term loan facility related to the sale of the FW Rights.

Other Finance Income (Costs)

The following table summarizes other finance income (costs), for the three and twelve months ended December 31, 2016.

	Three months ended December 31,		Year ended December 31,	
(000's)	**2016**	**2015**	**2016**	**2015**
Foreign exchange gain (loss)	$ (70)	$ (77)	$ 237	$ (182)
Interest expense on promissory note	-	(43)	-	(98)
Finance income	81	16	101	188
Amortization of deferred financing fees	(111)	(54)	(271)	(127)
Loan prepayment fee	(62)	-	(62)	-
Adjustment to and unwinding of discount on financial liabilities	-	(3)	-	(19)
	$ (162)	$ (161)	$ 5	$ (238)

Fourth Quarter

Other finance costs in the fourth quarter of 2016 were comparable to the same prior period.

Year

Other finance income for the year ended December 31, 2016 consists of a foreign exchange gain on U.S. dollar provisions and interest income. This was largely offset by the accelerated amortization of deferred financing fees and the fee arising from early repayment of the Company's $15.0 million term loan facility upon completion of the sale of the FW Rights.

Other finance costs for the year ended December 31, 2015 primarily consist of a foreign exchange loss on U.S. dollar provisions, interest expense on a promissory note, and the amortization of deferred financing fees. These costs were partially offset by interest income.

Income Tax Expense

Fourth Quarter

Income tax expense decreased by $0.4 million during the fourth quarter of 2016, compared to the prior year. This decrease was primarily due to a deferred tax adjustment related to the sale of the FW Rights, partially offset by higher income before taxes in the current period.

Year

Income tax expense increased by $4.1 million during the year ended December 31, 2016, compared to the same prior period. This increase was primarily due to deferred taxes related to the sale of the FW Rights and higher income before taxes.

Non-Capital Loss Carry-Forwards and Eligible Capital Expenditures

As at December 31, 2016, the Company has approximately $13.4 million of non-capital losses. In addition, the Company has eligible capital expenditures related to the SGRS Rights and ML Rights, of approximately $115.0 million.

SELECTED ANNUAL INFORMATION

		2016		2015		2014
Revenue	$	28,171	$	19,590	$	3,247
Net income		10,685		5,972		7,422
Total assets		250,223		304,535		155,217
Total non-current financial liabilities		40,756		55,685		15,325
Basic earnings per share	$	0.09	$	0.07	$	0.17
Diluted earnings per share		0.09		0.07		0.17
Dividends declared per share		0.22		0.20		0.03

Prior to 2014, the Company operated a soil remediation facility, which was sold in May 2013. From June 2013 until the completion of the Franworks Acquisition on September 26, 2014, the Company was actively pursuing new business opportunities.

The growth in revenues, assets, and non-current financial liabilities in 2014 and 2015 were driven by the Franworks Acquisition on September 26, 2014, the Sutton Acquisition on June 19, 2015, and the Mr. Lube Acquisition on August 19, 2015. On November 27, 2016, the Company sold the FW Rights, which resulted in the decrease of total assets and non-current financial liabilities.

The fluctuations in net income, basic earnings per share and diluted earnings per share reflects the growth in revenues, offset by fluctuations related to litigation expenses, acquisition costs, proxy contest costs, and income tax expense / recoveries.

In October 2014, the Company adopted a monthly dividend policy to pay an annual aggregate dividend of $0.1884 per common share. The annual aggregate dividend was increased to $0.20 per share effective August 31, 2015 after the closing of the Sutton Acquisition, with a further increase to $0.2225 per share effective October 30, 2015 after the closing of the Mr. Lube Acquisition.

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)	Q4 2016	Q3 2016	Q2 2016	Q1 2016	Q4 2015	Q3 2015	Q2 2015	Q1 2015
Revenue	$ 6,371	$ 7,318	$ 7,493	$ 6,989	$ 7,422	$ 5,717	$ 3,535	$ 2,916
Net income (loss)	$ 5,285	$ (337)	$ 3,692	$ 2,045	$ 1,675	$ 2,428	$ 679	$ 1,190
Earnings per common share								
Basic	$ 0.05	$ 0.00	$ 0.03	$ 0.02	$ 0.01	$ 0.03	$ 0.01	$ 0.02
Diluted	$ 0.05	$ 0.00	$ 0.03	$ 0.02	$ 0.01	$ 0.03	$ 0.01	$ 0.02

Revenue

The overall growing trend in quarterly revenue from the first quarter of 2015 to the third quarter of 2016 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.

The decrease in revenue in the fourth quarter of 2016 was due to the sale of the FW Rights on November 27, 2016.

Net Income

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

FINANCIAL AND OTHER INSTRUMENTS

In the normal course of business, the Company is exposed to financial risks, including credit risk, liquidity risk, currency risk, and interest risk. 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

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 Company's Royalty Partners.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities and other contractual obligations. 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 December 31, 2016, the Company had a cash and cash equivalents balance of $75.0 million (December 31, 2015 - $8.9 million) and working capital of $75.6 million (December 31, 2015 - working capital of $3.9 million). The working capital as at December 31, 2016 reflects the net cash proceeds from the sale of the FW Rights.

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

(000's)	Carrying amount	Contractual cash flow	2017	2018	2019	2020	Thereafter
Accounts payable and accrued liabilities	$ 592	$ 592	$ 592	$ -	$ -	$ -	$ -
Long-term bank loans[1]	40,659	43,366	1,467	41,899	-	-	-
Total contractual obligations	$ 41,251	$ 43,958	$ 2,059	$ 41,899	$ -	$ -	$ -

1) Includes the impact of interest rate swap agreements.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts. With the increase of cash as a result of the sale of the FW Rights, liquidity risk has declined from prior year.

Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate due to changes in foreign exchange rates. During the years ended December 31, 2016 and 2015, the Company was 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; and (iii) the provision for legal costs the Company recovered from the insurance underwriter.

As the Company sold the FW Rights on November 27, 2016, the Company is no longer exposed to currency risk related to the translation of the Franworks' U.S. restaurant dollar sales into Canadian dollars. In addition, on December 7, 2016, the Company settled the John Bennett indemnity claim and agreed to repay its insurance underwriter for certain legal costs reimbursed to Mr. Bennett. As a result, the Company is no longer exposed to currency risk arising from these matters.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. 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 December 31, 2016, interest rate risk is mitigated by interest rate swap arrangements that fix the interest rates on $40.9 million of the Company's floating rate term loan facilities. 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. The Company recorded a $0.1 million gain for the three months and a $0.2 million gain for the year ended December 31, 2016 related to the interest rate swaps.

CASH FLOWS

	Year ended December 31, 2016	2015
(000's)		
Cash from operating activities	$ 14,793	$ 13,395
Cash from (used in) financing activities	(38,168)	131,437
Cash from (used in) investing activities	89,460	(170,454)
Decrease in cash	66,085	(25,622)
Cash, beginning of period	8,889	34,511
Cash, end of period	$ 74,974	$ 8,889

Cash From Operating Activities

Cash from operations in the year ended December 31, 2016 increased by $1.4 million compared to the prior year. 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 year ended December 31, 2016 was primarily related to dividends paid and the repayment of the $15.0 million term loan facility as part of the FW Rights sale. These items were partially offset by proceeds from the exercise of share options.

Cash from financing activities for the year ended December 31, 2015 was primarily related to net proceeds from the issuance of equity and debt. These proceeds were partially offset by dividends paid during the period.

Cash Used In Investing Activities

Cash from investing activities for the year ended December 31, 2016 was due to the net proceeds on the sale of FW Rights.

Cash used in investing activities for the year ended December 31, 2015 relates to the Sutton Acquisition and Mr. Lube Acquisition.

CAPITAL RESOURCES

The Company's capital includes shareholders' equity, long-term debt, net of cash and cash equivalents. In managing its capital, the Company may issue new shares, issue new debt, adjust the amount of dividends paid to its shareholders, or pursue a normal course issuer bid.

As at December 31, 2016, the Company's subsidiaries had the following term loan facilities:

- ML LP: $34.6 million non-amortizing loan that matures on August 18, 2018 and bears interest at the BA rate plus 2.50%. The Company has an interest rate swap arrangement that results in a fixed interest rate of 3.62% for this facility; and
- SGRS LP: $6.3 million non-amortizing loan that matures on June 19, 2018 and bears interest at the BA rate plus 2.25%. The Company has an interest rate swap arrangement that results in a fixed rate of 3.41% for this facility.

In addition, the Company has the following operating lines of credit, which were undrawn at December 31, 2016 and March 28, 2017:

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

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.

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.

SHARE CAPITAL

Common Shares

As at March 28, 2017, there were 105,591,373 common shares issued and outstanding.

Share Options

As at March 28, 2017, there were 232,900 share options outstanding and exchangeable into common shares at exercise prices ranging between $1.50 per share to $1.79 per share.

Restricted Share Units

As at March 28, 2017, there were 614,740 RSUs outstanding and exchangeable into common shares upon vesting.

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.

DIV's annual dividend of $0.1884 per share was increased to $0.20 per share effective August 31, 2015 after the closing of the Sutton Acquisition, with a further increase to $0.2225 per share effective October 30, 2015 after the closing of the Mr. Lube Acquisition.

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

The Company's dividends are deemed eligible dividends for Canadian tax purposes. Dividends declared in 2015 and 2016 were as follows:

Month	Payment date	Dividend / share	Month	Payment date	Dividend / share
December 2016	December 30, 2016	$ 0.01854	December 2015	December 31, 2015	$ 0.01854
November 2016	November 30, 2016	$ 0.01854	November 2015	November 30, 2015	$ 0.01854
October 2016	October 31, 2016	$ 0.01854	October 2015	October 30, 2015	$ 0.01854
September 2016	September 30, 2016	$ 0.01854	September 2015	September 30, 2015	$ 0.01667
August 2016	August 31, 2016	$ 0.01854	August 2015	August 31, 2015	$ 0.01667
July 2016	July 29, 2016	$ 0.01854	July 2015	July 31, 2015	$ 0.01570
June 2016	June 30, 2016	$ 0.01854	June 2015	June 30, 2015	$ 0.01570
May 2016	May 31, 2016	$ 0.01854	May 2015	May 29, 2015	$ 0.01570
April 2016	April 29, 2016	$ 0.01854	April 2015	April 30, 2015	$ 0.01570
March 2016	March 31, 2016	$ 0.01854	March 2015	March 31, 2015	$ 0.01570
February 2016	February 29, 2016	$ 0.01854	February 2015	February 27, 2015	$ 0.01570
January 2016	January 29, 2016	$ 0.01854	January 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 year ended December 31, 2016, there were 553,274 common shares issued under the DRIP (2015 – 84,595 common shares).

CONTINGENCIES AND PROVISIONS

The following outlines contingencies and provisions with respect to the Company as at December 31, 2016. Refer to note 9 of the Q4 2016 Financial Statements for greater detail.

Claim by U.S. Contractor

In 2008, Sevenson Environmental Services Inc. ("Sevenson"), 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 were the subject of the John Bennett litigation.

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

On February 11, 2015, Sevenson filed its third amended complaint against the Company. The complaint alleges that employees of the Company conspired with an employee of the prime contractor relating to, among other things, the awarding of contracts during the years 2002 through 2004. Of the 21 counts in the complaint, only six name the Company as a defendant. The complaint seeks not less than approximately $1.1 million U.S. plus the value of additional gratuities from the Company and punitive damages.

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 Sevenson. In December 2015, the Company and Sevenson 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 Sevenson. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

TRANSACTIONS WITH RELATED PARTIES

In addition to information disclosed elsewhere in this MD&A, the Company had the following related party transactions during the years ended December 31, 2016 and 2015. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Franworks' Interest in the Company

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, prior to entering into the agreement to sell the FW Rights, 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 will become exchangeable into common shares of DIV on increases in the Sutton Royalty Rate, which may occur in separate 10.0% increments up to four times during the life of the royalty.

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 will become exchangeable into common shares of the Company on increases in the ML Royalty Rate, which may occur in 0.5% increments up to four times during the life of the royalty.

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 has a services agreement with Maxam whereby Maxam provides rent and administrative services to the Company for a fee of approximately $0.1 million per annum.

Key Management Personnel

Key management personnel of the Company include the board of directors, the President and CEO, and CFO. The table below provides a breakdown of the compensation of key management personnel included in net income:

	2016	2015
Short-term benefits	$ 961	$ 777
Share-based compensation	747	290
	$ 1,708	$ 1,067

During the year ended December 31, 2016, the Company paid fees of $0.4 million (2015 - $1.1 million) to a legal firm where a current director of the Company is a partner.

SIGNIFICANT ACCOUNTING POLICIES

The Company's 2016 Financial Statements have been prepared in accordance with IFRS. The Company's significant accounting policies are described in note 3 of the Company's 2016 Financial Statements.

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 does not expect these amendments to have a material impact 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 does not expect these amendments to have a material impact on its consolidated financial statements.

CRITICAL JUDGMENTS AND KEY ESTIMATES

The preparation of the Company's consolidated 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 consolidated 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 intangible assets at cost, and are not amortized as they have an indefinite life.

DIV tests the intangible assets for impairment annually, or when there is any indication that an asset may be impaired. This requires the Company to use a valuation technique that is dependent on a number of different variables that requires management to exercise judgment. As a result, the estimated net cash flows the intangible assets are expected to generate could differ materially from actual results.

Fair Value of Class A, B, C, D, and E SGRS LP units ("Exchangeable SGRS LP Units") and 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 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 8 in the 2016 consolidated 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 net income or 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 and cash flows from operating activities.

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 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

Investing in securities of DIV involves a high degree of risk. In addition to the risks identified elsewhere in this MD&A, investors should carefully consider all of the risk factors associated with the Company and its business, identified in the disclosure under the heading "Risk Factors" in the Company's Annual Information Form dated March 28, 2017 for the year ended December 31, 2016, a copy of which is available on SEDAR at www.sedar.com. The occurrence of any of such risks, or other risks not presently known to DIV or that DIV currently believes are immaterial, could materially and adversely affect DIV's investments, prospects, cash flows, results of operations or financial condition and DIV's ability to pay cash dividends to its shareholders. In that event, the value of the DIV's common shares, and any other securities it may have issued and outstanding from time to time, could decline and investors may lose all or part of their investment.

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 year ended December 31, 2016.

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

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

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

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A, and documents referred to herein, may constitute "forward-looking information" within the meaning of applicable securities laws. Such statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements or industry results expressed or implied by such forward-looking information. Forward-looking information is generally identified by the use of terms and phrases such as "anticipate", "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 expectation that it will generate a significant amount of its total royalty revenue from the intangible assets of Sutton in the first quarter of 2017 and that Sutton will re-commence filing separate financial statements and MD&A on SEDAR, starting with the first quarter of 2017; 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; DIV's intention of achieving a payout ratio that approximates 100% over time; DIV's expectation that the payout ratio for the first quarter of 2017 will be higher than the fourth quarter of 2016 and will remain over 100% until such time as further accretive royalty acquisitions are completed; DIV's intention to acquire future royalty streams in separate legal entities without cross-collateralization; the expected use by DIV of the cash proceeds from the sale of FW Rights, including the intention to pursue the acquisition of additional royalty streams; Mr. Lube and Sutton's performance for 2017; ongoing litigation with a contractor in relation to the Project, including managements intention to defend against this claim vigorously and management's view of the prospects of the success of its defence; the expected implications of new and proposed accounting standards and practices on DIV and the dates of such proposed standards and practices are expected to come into effect; 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 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; 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 and management fees from Sutton and Mr. Lube and adjustments thereto; 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, 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 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 Sutton and Mr. Lube; 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 Sutton and 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 the business of 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 Sevenson regarding the Project; and any residual liability arising from its former St. Ambroise plant. Readers are cautioned that the foregoing list is not exhaustive. For additional information with respect to risks and uncertainties, readers should carefully review and consider the risk factors described under "*Risk Factors*" and elsewhere in this MD&A. The information contained in this MD&A, including the documents referred to herein, identifies additional factors that could affect the operating results and performance of the Company. Readers are urged to carefully consider those factors.

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