DIVERSIFIED

DIV

ROYALTY CORP.

Management's Discussion and Analysis

For the three months and year ended December 31, 2017

March 29, 2018

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, 2017 should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2017 (the "2017 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 29, 2018 for the year ended December 31, 2017, is available on SEDAR at www.sedar.com.

Statements made in this MD&A and in the 2017 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.

Readers are referred to the consolidated financial statements and MD&A of Mr. Lube Canada Limited Partnership ("Mr. Lube") and Sutton Group Realty Services Ltd. ("Sutton") for the year ended December 31, 2017. As DIV no longer views the royalty revenues received from Sutton to be a significant, subsequent to the financial statements and management's discussion and analysis filed on SEDAR for the year ended December 31, 2017, Sutton will cease filing financial statements and management's discussion and analysis on SEDAR unless the revenues DIV receives from Sutton again become significant to DIV in the future (see "Sutton to Cease Filing Financial Statements and Management's Discussion and Analysis" below).

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 for the three months and year ended December 31, 2017 and 2016 consists of royalties and management fees that are contractually agreed to between the Company and its Royalty Partners:

- 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, 2017, Mr. Lube had 172 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;
- Sutton: royalties are based on the number of Sutton agents in the royalty pool (the "Sutton Royalty Pool"). As at December 31, 2017, 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;
- AIR MILES: royalties are based on gross billings generated by LoyaltyOne, Co. ("LoyaltyOne") through its operation of the AIR MILES® reward program in Canada (the "AIR MILES® Reward Program"); and
- Franworks: royalties were based on top-line system sales of Franworks Franchise Corp. ("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 "FW Rights"), and terminated the previously existing royalty and other commercial arrangements with Franworks and certain other parties.

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 largely on the ability of Mr. Lube and Sutton to maintain and increase the sales or number of agents in the respective royalty pools, and, in the case of LoyaltyOne, the gross billings generated through the AIR MILES® Reward Program in Canada.

FINANCIAL HIGHLIGHTS

(000's except per share amounts and number of agents and locations)	Three months ended December 31, 2017	2016	Year ended December 31, 2017	2016
Consolidated:				
Revenue[1, 2, 3]	$ 6,865	$ 6,371	$ 20,919	$ 28,171
Royalty income[1, 2, 3]	6,788	6,295	20,613	27,869
Normalized EBITDA[4]	6,268	5,797	18,526	26,166
Distributable cash[4]	5,552	5,389	17,274	24,108
Income from operations	5,692	6,066	17,220	19,701
Net income	3,468	5,285	11,560	10,685
Dividends declared	5,913	6,194	23,566	25,122
Basic earnings per share	$ 0.03	0.05	$ 0.11	$ 0.09
Diluted earnings per share	0.03	0.05	0.11	0.09
Distributable cash flow per share[4]	0.05	0.05	0.16	0.21
Dividends declared per share	0.06	0.06	0.22	0.22
Total assets[5]	$ 315,705	$ 250,223	$ 315,705	$ 250,223
Total non-current financial liabilities[5]	108,543	40,756	108,543	40,756
Mr. Lube Royalty Pool:				
Number of locations[5]	117	117	117	117
System sales	$ 52,935	$ 50,102	$ 198,549	$ 189,838
Royalty income and management fees[2]	3,686	3,547	14,022	13,439
SSSG[4]	5.7%	6.2%	4.4%	4.9%
Sutton Royalty Pool:				
Number of agents[5]	5,400	5,400	5,400	$ 5,400
Royalty income and management fees	$ 973	$ 954	$ 3,854	3,708
AIR MILES® Reward Program[3]:				
Gross billings	$ 220,628	n / a	$ 304,306	n / a
Royalty income	$ 2,206	n / a	$ 3,043	n / a

1) On November 27, 2016, the Company completed the sale of the FW Rights. The three months and year ended December 31, 2016 included $1.9 million and $11.0 million of royalty income from Franworks, respectively.
2) Royalty income from Mr. Lube includes make-whole payments of $0.01 million for the three months and $0.06 million for the year ended December 31, 2017 on lost system sales of $0.2 million and $0.8 million, respectively. 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.
3) The AIR MILES® Rights acquisition closed on August 25, 2017. Notwithstanding the August 25, 2017 closing date, AM LP (defined below) was entitled to royalties earned under the AIR MILES Licenses commencing August 22, 2017.
4) 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.
5) At period end.

ROYALTY POOLS

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, 2017	Three months ended December 31, 2016	Year ended December 31, 2017	Year ended December 31, 2016
Number of locations[1]	117	117	117	$ 117
System sales	$ 52,935	$ 50,102	$ 198,549	$ 189,838
Royalty income[2]	$ 3,634	$ 3,496	$ 13,816	$ 13,237
Management fees	$ 52	$ 51	$ 206	$ 202

1) At period end.
2) Royalty income from Mr. Lube includes make-whole payments of $0.01 million for the three months and $0.06 million for the year ended December 31, 2017 on lost system sales of $0.2 million and $0.8 million, respectively. 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.

ML Rights

ML Royalties Limited Partnership (“ML LP”), an entity controlled by the Company, owns all the trademarks and certain other intellectual property rights utilized by Mr. Lube (the “ML Rights”) in its business of franchising automotive maintenance businesses.

ML LP licensed the ML Rights to Mr. Lube for 99 years, in exchange for a royalty payment equal to 6.95% of the system sales, with the exception of system sales on tires and rims that are subject to a royalty rate of 2.5% (collectively, 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.

If 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 $52.9 million for the fourth quarter of 2017, compared to $50.1 million in the same prior period. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 5.7% for the fourth quarter of 2017 compared to 6.2% in the fourth quarter of 2016. Mr. Lube’s SSSG was driven by continued strong store-level execution and expansion of the tire business, including the launch of tire retailing across the chain in the fourth quarter of 2017.

Year

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $198.5 million for the year ended December 31, 2017, compared to $189.8 million in the same prior period. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 4.4% for the year ended December 31, 2017 compared to 4.9% in the same prior period. Mr. Lube’s SSSG was driven by continued strong store-level execution and expansion of the tire business.

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 December 31, 2017	2016	Year ended December 31, 2017	2016
Number of agents[1]	5,400	5,400	5,400	5,400
Royalty income	$ 948	$ 929	$ 3,754	$ 3,608
Management fees	$ 25	$ 25	$ 100	$ 100

1) At period end.

SGRS Rights

SGRS Royalties Limited Partnership ("SGRS LP"), an entity controlled by the Company, owns all 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").

SGRS LP licensed the SGRS Rights to Sutton for 99 years in exchange for a monthly royalty payment (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. On July 1, 2017, the Sutton Royalty Rate was increased from $57.375 per agent per month to $58.523 per agent per month. In addition, Sutton pays the Company a management fee of approximately $0.1 million per year for strategic and other services.

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, 2017. Sutton's fourth quarter and year end results were in line with expectations.

AIR MILES® Reward Program

The following table sets out the royalty income received from LoyaltyOne from August 25, 2017, the date of acquisition, to December 31, 2017:

(000's)	Three months ended December 31, 2017	2016	Year ended December 31, 2017	2016
Gross billings	$ 220,628	n / a	$ 304,306	n / a
Royalty income[1]	$ 2,206	n / a	$ 3,043	n / a

1) Notwithstanding the August 25, 2017 closing date, AM LP was entitled to royalties earned under the AIR MILES Licenses commencing August 22, 2017.

AIR MILES® Rights

On August 25, 2017, the Company indirectly acquired, through AM Royalties Limited Partnership ("AM LP") (a wholly owned subsidiary of the Company), the Canadian AIR MILES trademarks and certain related Canadian intellectual property rights (collectively, the "AIR MILES® Rights") from a subsidiary of Aimia Inc. for $53.75 million, plus additional contingent consideration of up to $13.75 million. In accordance with the terms of two license agreements with LoyaltyOne (collectively the "AIR MILES Licenses") acquired by AM LP as part of the acquisition of the AIR MILES® Rights, LoyaltyOne has an exclusive right to use the AIR MILES® Rights for purposes of operating the AIR MILES® Reward Program in Canada for an indefinite term in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Reward Program. LoyaltyOne is a subsidiary of Alliance Data Systems Inc. ("ADS"), a NYSE listed company. A copy of each of the AIR MILES Licenses has been filed on SEDAR and is available at www.sedar.com.

Fourth Quarter and Year

Gross billings for the AIR MILES® Reward Program is derived from the issuance and redemption of AIR MILES. According to ADS' news release dated January 25, 2018, the AIR MILES reward miles issued decreased by 5% in the fourth quarter due to reduced promotional activity by sponsors.

If 2018's actual results for AIR MILES® are consistent with the seasonally-adjusted run-rate royalty of $7.95 million, no additional consideration will be payable by DIV to Aimia Inc. for the AIR MILES® royalty.

Franworks

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

	Three months ended December 31,		Year ended December 31,	
(000's, except number of restaurants)	**2017**	**2016**	**2017**	**2016**
System sales	$ -	$ 30,640	$ -	$ 181,117
Royalty income[2]	$ -	$ 1,870	$ -	$ 11,024

The Company previously licensed the FW Rights to a subsidiary of Franworks in exchange for a royalty payment equal to 6.0% of the system sales of the restaurants in the Franworks royalty pool.

On November 27, 2016, the Company completed the sale of the FW Rights. Upon closing the sale of the FW Rights, the previously existing royalty and other commercial arrangements between the Company and Franworks were terminated. As a result, the year ended December 31, 2016 includes royalty income from Franworks from January 1, 2016 to November 27, 2016, the date the FW Rights were sold.

EBITDA, NORMALIZED EBITDA AND DISTRIBUTABLE CASH

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

	Three months ended December 31,		Year ended December 31,	
(000's)	**2017**	**2016**	**2017**	**2016**
Net income	**$ 3,468**	**$ 5,285**	**$ 11,560**	**$ 10,685**
Interest expense on credit facilities	968	489	2,080	2,159
Income tax expense	1,390	262	4,353	7,062
EBITDA[1]	**5,826**	**6,036**	**17,993**	**19,906**
Adjustments:				
Share-based compensation	395	240	975	747
Litigation	181	(1,263)	331	3,516
Impairment of intangible asset	-	754	-	2,202
Other finance costs (income), net	(50)	162	(516)	(5)
Fair value adjustment on interest rate swaps	(84)	(132)	(257)	(200)
Normalized EBITDA[1]	**6,268**	**5,797**	**18,526**	**26,166**
Less: interest expense on credit facilities	(968)	(489)	(2,080)	(2,159)
Add: Interest income	252	81	828	101
Distributable cash[1]	**$ 5,552**	**$ 5,389**	**$ 17,274**	**$ 24,108**
Distributable cash flow per share[1]	$ 0.0522	$ 0.0486	$ 0.1631	$ 0.2137
Dividends declared per share	0.0556	0.0556	0.2225	0.2225
Payout Ratio[1]	**106.5%**	**114.6%**	**136.4%**	**104.1%**

1) EBITDA, normalized EBITDA, distributable cash and payout ratio 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 operating activities:

(000's)	Three months ended December 31, 2017	2016	Year ended December 31, 2017	2016
Cash from operating activities	$ 3,677	$ (1,668)	$ 14,408	$ 14,793
Changes in working capital	2,143	8,250	2,974	6,036
Accrued interest on convertible debentures	(453)	-	(453)	-
Litigation expense	181	(1,263)	331	3,516
Foreign exchange loss (gain)	4	70	14	(237)
Distributable cash	**$ 5,552**	**$ 5,389**	**$ 17,274**	**$ 24,108**

Distributable Cash

For the three months ended December 31, 2017, distributable cash increased by $0.2 million ($0.0044 per share) to $5.6 million ($0.0522 per share), compared to the same prior period. The increase was due to the acquisition of the AIR MILES® Rights on August 25, 2017, partially offset by higher interest expense related to the convertible debentures issued on November 7, 2017. In addition, distributable cash for the three months ended December 31, 2016 was negatively impacted by the sale of the FW Rights on November 27, 2016.

For the year ended December 31, 2017, distributable cash decreased by $6.8 million ($0.0506 per share) to $17.3 million ($0.1631 per share), compared to the same prior period. The decrease was due to the sale of the FW Rights on November 27, 2016 and higher interest expense related to the convertible debentures, partially offset by the acquisition of the AIR MILES® Rights on August 25, 2017 and higher interest income.

Dividends Declared

In the fourth quarter of 2017, the Company declared dividends in the aggregate amount of $5.9 million ($0.0556 per share), compared to $6.2 million ($0.0556 per share) in the fourth quarter of 2016. During the year ended December 31, 2017, the dividends declared was $23.6 million ($0.2225 per share) compared to $25.1 million ($0.2225 per share) in the same prior period. The decrease in declared dividends was due to the cancellation of 8,992,187 common shares indirectly held by Franworks, in connection with 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 payout ratio for the fourth quarter of 2017 decreased, when compared to the same prior period. The decrease was due to higher distributable cash in the fourth quarter of 2017 driven by the acquisition of the AIR MILES® Rights on August 25, 2017. The fourth quarter of 2016 was negatively impacted by the sale of the FW Rights on November 27, 2016.

The payout ratio for the year ended December 31, 2017 increased, when compared to the prior year. This increase was due to lower distributable cash in 2017 as a result of the sale of the FW Rights on November 27, 2016. The decrease in distributable cash was slightly offset by the acquisition of the AM Rights on August 25, 2017.

For the fourth quarter of 2017, the dividends declared were in excess of distributable cash, which resulted in a payout ratio of 106.5%. However, the Company has a dividend reinvestment plan ("DRIP"), 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 93.6% for the fourth quarter of 2017. Accordingly, there was no cash shortfall in making dividend payments for the fourth quarter of 2017.

For the year ended December 31, 2017, the dividends declared were in excess of distributable cash, which resulted in a payout ratio of 136.4%. On a cash basis, the payout ratio for the year ended December 31, 2017 was 123.6%. The shortfall in distributable cash was funded by the proceeds received from the sale of the FW Rights. The Company intends to use the remaining proceeds from the sale of the FW Rights in November 2016 as well as the proceeds from the convertible debenture offering in November 2017 to fund future royalty acquisitions, with the intention of achieving a payout ratio that approximates 100% over time. The Company expects the payout ratio to remain over 100% until such time as further royalty acquisitions are completed and excess cash has been deployed. The Company's board of directors reviews the dividend policy on an ongoing basis.

As at December 31, 2017, the DRIP participation rate was 12.0%.

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 2017 Financial Statements of the Company.

(000's)		Three months ended December 31, 2017		2016		Twelve months ended December 31, 2017		2016
Royalty income	$	6,788	$	6,295	$	20,613	$	27,869
Management fees		77		76		306		302
Revenues		6,865		6,371		20,919		28,171
Expenses								
Salaries and benefits		401		343		1,616		1,228
Share-based compensation		395		240		975		747
General and administration		129		149		568		510
Professional fees		67		82		209		267
Litigation		181		(1,263)		331		3,516
Impairment of intangible asset		-		754		-		2,202
Income from operations		5,692		6,066		17,220		19,701
Interest expense on credit facilities		(968)		(489)		(2,080)		(2,159)
Other finance income (costs), net		50		(162)		516		5
Fair value adjustment on interest rate swaps		84		132		257		200
Income before income taxes		4,858		5,547		15,913		17,747
Income tax expense		1,390		262		4,353		7,062
Net income and comprehensive income	$	3,468	$	- 5,285	$	11,560	$	10,685

Revenue

Fourth Quarter

Revenue increased by $0.5 million for the three months ended December 31, 2017, when compared to the same prior period. The increase in revenue was due to the incremental revenue generated from the AIR MILES® Rights, positive SSSG at Mr. Lube and the annual contractual 2.0% increase in the Sutton Royalty Rate, effective as of July 1st of each year. The increase was partially offset by the sale of the FW Rights on November 27, 2016.

Year

Revenue decreased by $7.3 million for the year ended December 31, 2017, when compared to the prior year. The decrease in revenue was due to the sale of the FW Rights on November 27, 2016. This was partially offset by incremental revenue generated from the AIR MILES® Rights, positive SSSG at Mr. Lube and the annual contractual 2.0% increase in the Sutton Royalty Rate, effective as of July 1st of each year.

Salaries and Benefits

Fourth Quarter and Year

Salaries and benefits expense increased by $0.1 million for the three months and $0.4 million for the year ended December 31, 2017, when compared to the same prior periods. The increase was primarily due to the Company's CEO and President electing to receive at least 45% of his 2016 base salary in restricted share units ("RSUs"), which was recorded as share-based compensation. During the year ended December 31, 2017, he received 100% of his base salary in cash, which was recorded as salaries and benefits.

Share-based Compensation

Fourth Quarter and Year

Share-based compensation for the three months and year ended December 31, 2017 increased by $0.2 million compared to the same prior periods. The increase was primarily due to fair value adjustment related to the restricted share units ("RSUs") liability, and the issuance of both RSUs and stock options in 2017.

General and Administration

Fourth Quarter and Year

General and administration expense for the three months and year ended December 31, 2017 was comparable to the same prior periods.

Professional Fees

Fourth Quarter and Year

Professional fees are comprised of legal, audit, tax, and advisory services. Professional fees for the three months and year ended December 31, 2017 were comparable to the same prior periods.

Litigation

Fourth Quarter

Litigation expense for the three months ended December 31, 2017 relates to the Sevenson litigation claim as described under note 9 of the 2017 Financial Statements. For the three months ended December 31, 2016, the Company recorded a net gain of $1.3 million related to the settlement of both John Bennett's indemnification claim against the Company and the insurance underwriter's claim for repayment of amounts advanced to DIV in respect of Mr. Bennett's past indemnity claims.

Year

Litigation expense decreased by $3.2 million for the year ended December 31, 2017 compared to the prior year. The decrease was due to the settlement in December 2016 of both John Bennett's indemnification claim against the Company and the insurance underwriter's claim for repayment for amounts advanced to DIV in respect of Mr. Bennett's past indemnity claim.

Interest Expense on Credit Facilities

Fourth Quarter

Interest expense on credit facilities increased by $0.5 million for the three months ended December 31, 2017, compared to the same prior period. The increase was primarily due to the issuance of convertible debentures on November 7, 2017 and the term loan facility drawn on September 6, 2017 related to the acquisition of the AIR MILES® Rights. The increase was partially offset by the repayment of the term loan facility associated with the sale of the FW Rights on November 27, 2016.

Year

Interest expense on the credit facilities decreased by $0.1 million for the year ended December 31, 2017, compared to the prior year. The decrease was due to the repayment of the term loan facility related to the sale of the FW Rights in 2016, largely offset by the interest incurred on the convertible debentures issued in November 2017 and the term loan facility drawn in September 2017 related to the AIR MILES® Rights acquisition.

Other Finance Income (Costs), Net

The following table summarizes other finance income, net of costs, for the three months and year ended December 31, 2017 and 2016.

	Three months ended December 31,		Year ended December 31,	
(000's)	**2017**	**2016**	**2017**	**2016**
Foreign exchange gain (loss)	$ (4)	$ (70)	$ (14)	$ 237
Finance income	252	81	828	101
Loan prepayment fee	-	(62)	-	(62)
Accretion expense	(105)	-	(105)	-
Amortization of deferred financing fees	(93)	(111)	(193)	(271)
	$ 50	$ (162)	$ 516	$ 5

Fourth Quarter

In the fourth quarter of 2017, other finance income of $0.1 million primarily consisted of interest income, largely offset by accretion expense and the amortization of deferred financing fees. In the fourth quarter of 2016, other finance costs of $0.2 million primarily consisted of the amortization of deferred financing fees, foreign exchange loss, and loan prepayment fees, which were slightly offset by interest income.

Year

For the year ended December 31, 2017, other finance income of $0.5 million primarily consisted of interest income, partially offset by the amortization of deferred financing fees and accretion expense. For the year ended December 31, 2016, other finance income consisted of a foreign exchange gain on U.S. dollar provisions and interest income, largely offset by the amortization of deferred financing fees and the fee arising from the early repayment of the Company's term loan facility upon completion of the sale of the FW Rights.

Income Tax Expense

Fourth Quarter

Income tax expense increased by $1.1 million for the three months ended December 31, 2017, compared to the same prior period. During the three months ended December 31, 2016, the Company recorded a deferred tax adjustment related to the sale of the FW Rights.

Year

Income tax expense decreased by $2.7 million for the year ended December 31, 2017, compared to the prior year. The decrease was due to deferred taxes recognized in 2016 related to the sale of the FW Rights, and lower income before taxes.

Non-Capital Loss Carry-Forwards and Eligible Capital Expenditures

As at December 31, 2017, the Company has approximately $8.7 million of non-capital losses. In addition, the Company has intangible assets related to the SGRS Rights, ML Rights and AIR MILES® Rights, which have an undepreciated capital cost allowance of approximately $159.9 million.

SELECTED ANNUAL INFORMATION

	2017	**2016**	**2015**
Revenue	$ 20,919	$ 28,171	$ 19,590
Net income	11,560	10,685	5,972
Total assets	315,705	250,223	304,535
Total non-current financial liabilities	108,543	40,756	55,685
Basic earnings per share	$ 0.11	$ 0.09	$ 0.07
Diluted earnings per share	0.11	0.09	0.07
Dividends declared per share	0.22	0.22	0.20

The Company completed the acquisition of the SGRS Rights on June 19, 2015 and the acquisition of the ML Rights on August 19, 2015, which resulted in an increase in 2016 revenues. Prior to the SGRS Rights and ML Rights acquisitions in 2015, the Company owned the FW Rights. On November 27, 2016, the Company sold the FW Rights, which resulted in the decrease of total assets and non-current financial liabilities in 2016 compared to 2015.

On August 25, 2017, the Company completed the acquisition of the AIR MILES® Rights, which partially offset the decline in revenues related to the sale of the FW Rights. In connection with the acquisition of the AIR MILES® Rights, the Company obtained a $17.4 million term loan facility. On November 7, 2017, the Company issued convertible debentures for a principal aggregate amount of $57.5 million, which resulted in the increase of total assets and current financial liabilities in 2017 compared to 2015.

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

On August 31, 2015, the Company's annual aggregate dividend was increased from $0.1884 to $0.20 per share after the acquisition of the SGRS Rights, with a further increase to $0.2225 per share effective October 30, 2015, after closing the ML Rights 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 2017	Q3 2017	Q2 2017	Q1 2017	Q4 2016	Q3 2016	Q2 2016	Q1 2016
Revenue	$ 6,865	$ 5,371	$ 4,535	$ 4,148	$ 6,371	$ 7,318	$ 7,493	$ 6,989
Net income (loss)	$ 3,468	$ 3,089	$ 2,690	$ 2,313	$ 5,285	$ (337)	$ 3,692	$ 2,045
Earnings per common share								
Basic	$ 0.03	$ 0.03	$ 0.03	$ 0.02	$ 0.05	$ 0.00	$ 0.03	$ 0.02
Diluted	$ 0.03	$ 0.03	$ 0.03	$ 0.02	$ 0.05	$ 0.00	$ 0.03	$ 0.02

Revenue

From the first quarter of 2016 to the third quarter of 2016, the Company's Royalty Partners included Franworks, Sutton, and Mr. Lube. On November 27, 2016, the FW Rights were sold, and Franworks ceased to be a Royalty Partner. This resulted in a decrease in revenues from the fourth quarter of 2016 to the second quarter of 2017. On August 25, 2017, the Company acquired the AIR MILES® Rights, which increased the revenues in the third and fourth quarters of 2017.

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 expense related to the sale of the FW Rights.

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 is mitigated by holding these amounts with Canadian chartered banks 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, 2017, the Company had a cash and cash equivalents balance of $85.8 million (December 31, 2016 - $75.0 million) and working capital of $88.5 million (December 31, 2016 - working capital of $75.6 million). The working capital as at December 31, 2017 reflects the net cash proceeds from the sale of the FW Rights and the convertible debenture offering, partially offset by the cash deployed in the acquisition of the AIR MILES® Rights.

As at December 31, 2017, the following table summarizes 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	2018	2019	2020	2021	Thereafter
Accounts payable and accrued liabilities	$ 1,354	$ 1,354	$ 1,354	$ -	$ -	$ -	$ -
Long-term bank loans[1]	57,772	68,946	2,107	2,354	2,354	2,354	59,777
Convertible debentures	50,771	72,594	3,019	3,019	3,019	3,019	60,519
Total contractual obligations	$ 109,897	$ 142,894	$ 6,480	$ 5,373	$ 5,373	$ 5,373	$ 120,296

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.

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 year ended December 31, 2017, the Company was exposed to currency risk arising from cash denominated in U.S. dollars. As at December 31, 2017, cash denominated in U.S. dollars was less than US$0.3 million.

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, 2017, interest rate risk is mitigated by interest rate swap arrangements that fix the interest rates on $49.6 million of the Company's $58.3 million 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. For the year ended December 31, 2017, the Company recorded a $0.3 million gain related to the interest rate swaps.

CASH FLOWS

	Year ended December 31,	
(000's)	2017	2016
Cash from operating activities	$ 14,408	$ 14,793
Cash from (used in) financing activities	50,411	(38,168)
Cash from (used in) investing activities	(53,977)	89,460
Decrease in cash	10,842	66,085
Cash, beginning of year	74,974	8,889
Cash, end of year	$ 85,816	$ 74,974

Cash From Operating Activities

Cash from operations for the year ended December 31, 2017 decreased by $0.4 million compared to the prior year. The decrease was primarily due to lower income from operations offset by lower interest paid net of interest income received, as well as fluctuations in non-cash working capital.

Cash From (Used in) Financing Activities

Cash from financing activities for the year ended December 31, 2017 was primarily related to proceeds from the issuance of debt, partially offset by dividends paid and debt financing costs. Cash used in financing activities for the year ended December 31, 2016 was primarily related to dividends paid and the repayment of the term loan facility as part of the FW Rights sale. These were slightly offset by proceeds from the exercise of share options.

Cash From (Used in) Financing Activities

Cash used in financing activities for the year ended December 31, 2017 was related to acquisition of the AIR MILES® Rights on August 25, 2017. Cash from investing activities for the year ended December 31, 2016 was due to the net proceeds from the sale of the FW Rights.

CAPITAL RESOURCES

The Company's capital includes shareholders' equity and 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, 2017, the Company's subsidiaries had the following term loan facilities:

- ML LP: $34.6 million non-amortizing loan that matures on July 31, 2022 and bears interest at the BA rate plus 1.95%. The Company has an interest rate swap arrangement that results in a fixed interest rate of 3.07% for 100% of the loan facility until August 13, 2018, which increases to 4.17% thereafter until July 31, 2022;
- SGRS LP: $6.3 million non-amortizing loan that matures on June 30, 2022 and bears interest at the BA rate plus 2.0%. The Company has an interest rate swap arrangement that results in a fixed rate of 3.16% for 100% of the loan facility until June 19, 2018.
- AM LP: $17.4 million non-amortizing loan that matures on September 6, 2022 and bears interest at the BA rate plus 2.25%. The Company has an interest rate swap arrangement that results in a fixed interest rate of 4.417% for 50% of the term loan facility until August 19, 2022.

In addition, the Company has the following operating lines of credit, which were undrawn at December 31, 2017 and March 29, 2018:

- ML LP: $1.0 million operating line of credit that matures on July 31, 2022, and bears interest at prime plus 0.75%; and
- SGRS LP: $0.5 million operating line of credit, which matures on June 30, 2022 and bears interest at the BA rate plus 2.0%.
- AM LP: $3.0 million operating line of credit, which matures on September 6, 2022 and bears interest at the BA rate plus 2.25%.

On November 7, 2017, DIV completed an offering of $57.5 million aggregate principal amount of 5.25% convertible unsecured subordinated debentures (the "Debentures"), which included the full exercise of the over-allotment option for an aggregate principal amount $7.5 million. The Debentures mature on December 31, 2022 and bear interest at 5.25%. DIV intends to use the net proceeds from the Debentures to fund potential future acquisitions, and may be used for, among other things, to fund general administration expenses and salaries, payment of deposits for potential acquisitions and to fund working capital.

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, 2018, there were 106,804,070 common shares issued and outstanding.

Share Options

As at March 28, 2018, there were 2,481,400 options outstanding, which may be exercised to purchase an equivalent number of common shares at exercise prices ranging between $1.50 per share to $3.53 per share.

Restricted Share Units

As at March 28, 2018, there were 730,942 RSUs outstanding, which may be settled for an equivalent number of 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.

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 reviews 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 2016 and 2017 are as follows:

2017	Payment date	Dividend / share	2016	Payment date	Dividend / share
December 2017	December 29, 2017	$ 0.01854	December 2016	December 30, 2016	$ 0.01854
November 2017	November 30, 2017	$ 0.01854	November 2016	November 30, 2016	$ 0.01854
October 2017	October 29, 2017	$ 0.01854	October 2016	October 31, 2016	$ 0.01854
September 2017	September 29, 2017	$ 0.01854	September 2016	September 30, 2016	$ 0.01854
August 2017	August 31, 2017	$ 0.01854	August 2016	August 31, 2016	$ 0.01854
July 2017	July 31, 2017	$ 0.01854	July 2016	July 29, 2016	$ 0.01854
June 2017	June 30, 2017	$ 0.01854	June 2016	June 30, 2016	$ 0.01854
May 2017	May 31, 2017	$ 0.01854	May 2016	May 31, 2016	$ 0.01854
April 2017	April 28, 2017	$ 0.01854	April 2016	April 29, 2016	$ 0.01854
March 2017	March 31, 2017	$ 0.01854	March 2016	March 31, 2016	$ 0.01854
February 2017	February 28, 2017	$ 0.01854	February 2016	February 29, 2016	$ 0.01854
January 2017	January 31, 2017	$ 0.01854	January 2016	January 29, 2016	$ 0.01854

Dividend Reinvestment Plan

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, 2017, there were 801,556 common shares issued under the DRIP (2016 – 553,274 common shares).

CONTINGENCIES

The Company's contingencies as at December 31, 2017 are disclosed in note 9 of the 2017 Financial Statements

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, 2017 and 2016. 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.

Maxam Services Agreement

The Company's President and CEO, Sean Morrison, and one of the Company's directors, Johnny Ciampi, 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 includes the board of directors, the President and CEO, and the CFO. The table below provides a breakdown of the compensation of key management personnel included in net income:

		2017		2016
Short-term benefits	$	1,473	$	961
Share-based compensation		975		747
	$	2,448	$	1,708

During the year ended December 31, 2017, the Company paid fees of $0.6 million (2016 - $0.4 million) to a legal firm where a current director of the Company is a partner.

SIGNIFICANT ACCOUNTING POLICIES

The Company's 2017 Financial Statements were prepared in accordance with IFRS. The Company's significant accounting policies are described in note 3 of the Company's 2017 Financial Statements.

Changes in accounting policies and disclosures

Effective January 1, 2017, the Company adopted the amendments to IAS 7, *Statement of Cash Flows.* As a result of applying these amendments, the Company presented new disclosures relating to the changes in financial liabilities arising from financing activities in its consolidated financial statements.

Effective January 1, 2017, the Company also adopted the amendments to IAS 12, *Income Taxes*. The adoption of these amendments did not have an 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 new standard also contains disclosure requirements which are more detailed than the current standard. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary review to assess the impact of this standard. The Company's primary source of revenue is royalty income, which is recognized on an accrual basis as earned. Although the Company will provide additional disclosures regarding its performance obligations, the Company does not anticipate an impact on its revenue recognition policies or cash flows as a result of the adoption of this standard.

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 does not anticipate a significant impact on its financial statements as a result of the adoption of this standard.

The IASB issued amendments to IFRS 2, *Share-Based Payments* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Upon adoption on January 1, 2018, the Company will reclassify $0.2 million related to its restricted share unit obligation from liabilities to contributed surplus. The Company will cease to apply mark-to-market accounting on share-based payment transactions with a net settlement feature for withholding tax obligations.

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.

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 (real estate, automotive maintenance and consumer loyalty), 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 its 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 these entities to generate economic returns. Using these criteria, management has determined that DIV ultimately controls these entities through its 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

The Company carries the intangible assets at cost and are not amortized as they have an indefinite life.

The Company tests 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 to determine if impairment exists. This valuation technique that is dependent on a number of different variables that requires management to exercise judgment. As a result, the estimated cash flows the intangible assets are expected to generate could differ materially from actual results.

Fair Value of Exchangeable Partnership Units in FW LP, SGRS LP, and ML LP ("Exchangeable Partnership Units")

The Company does not assign any value to the Exchangeable Partnership Units as they do not currently meet the relevant criteria for exchange into common shares of DIV (see note 8 in the 2017 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.

Convertible Debentures

The Company exercises judgment in determining the allocation of the equity and liability component of the convertible debenture. The liability allocation is based on the estimated fair value of a similar liability that does not have an equity conversion option and the residual amount is allocated to the equity component.

SUTTON TO CEASE FILING FINANCIAL STATEMENTS AND MANAGEMENT'S DISCUSSION AND ANALYSIS

Pursuant to an undertaking delivered by Sutton to DIV, the British Columbia Securities Commission (DIV's principal regulator) and the securities commissions or similar regulatory authorities in the other provinces of Canada, Sutton has its audited annual and unaudited interim financial statements and related management's discussion and analysis (collectively, "Sutton Financials") filed on SEDAR at www.sedar.com for periods in which its royalty payments and management fees represent a significant portion of DIV's consolidated royalty revenue. For these purposes, royalty payments and management fees which represent 20% or more of DIV's consolidated royalty revenue for a reporting period are considered to represent a significant portion of DIV's royalty revenue. The royalty payments and management fees received from Sutton for the fourth quarter 2017 and year ended December 31, 2017 represented only 14.2% and 18.4%, respectively, of DIV's consolidated royalty revenues. Accordingly, the royalty revenues and management fees received from Sutton are no longer considered significant and Sutton will cease filing Sutton Financials for periods after the filing of its audited annual financial statements and related management's discussion and analysis for the year ended December 31, 2017. Sutton will be required to re-commence filing Sutton Financials pursuant to its undertaking starting with the first period (whether quarterly or annual) in which its royalty payments and management fees again represent a significant portion of DIV's consolidated royalty revenue. Sutton Group and DIV have delivered a notice to the British Columbia Securities Commission to this effect.

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, impairment loss, 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, litigation expenditures and interest income. 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 section "EBITDA, Normalized EBITDA, and Distributable Cash" 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, plus interest income. 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 section "EBITDA, Normalized EBITDA, and Distributable Cash" provides a reconciliation from this non-IFRS financial measure to net income and cash flows from operating activities.

The calculation of Distributable Cash for the comparative periods were restated to conform to the calculation of Distributable Cash for the current period.

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 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 2017 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 Company's Annual Information Form dated March 29, 2018 for the year ended December 31, 2017 under the heading "Risk Factors", 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, DIV's ability to pay cash dividends to its shareholders and DIV's ability to make principal and interest payments to holders of Debentures. In that event, the value of the DIV's common shares, Debentures 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, 2017.

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, 2017. No changes were made in the Company's design of ICFR during the three and twelve months ended December 31, 2017, 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; DIV's intention of achieving a payout ratio that approximates 100% over time; DIV's expectation that the payout ratio 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 remaining cash proceeds from the sale of FW Rights, including to complete further royalty acquisitions; the expected use by DIV of the cash proceeds from the Debentures issued, including to complete further royalty acquisitions; the expectation that no additional consideration will be payable to Aimia Inc. if 2018 results for AIR MILES® are consistent with 2017 results; management's expectation that it will refinance its non-amortizing loans as they become due; 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 payment of royalties from LoyaltyOne; 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, Mr. Lube and LoyaltyOne; 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, Mr. Lube and LoyaltyOne; 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, Mr. Lube and LoyaltyOne 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, Mr. Lube and LoyaltyOne 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 a contractor related to a U.S. Federal Government project, as further described in the Company's 2017 Financial Statements; 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.

Third Party Information

This MD&A includes information obtained from third party company filings and reports and other publicly available sources. Although DIV believes these sources to be generally reliable, such information cannot be verified with complete certainty. Accordingly, the accuracy and completeness of this information is not guaranteed. DIV has not independently verified any of the information from third party sources referred to in this MD&A nor ascertained the underlying assumptions relied upon by such sources.