



**Management's Discussion and Analysis**  
**For the three months and year ended December 31, 2020**

**March 11, 2021**

## 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, 2020 should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2020 (the "2020 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 11, 2021 for the year ended December 31, 2020, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Statements made in this MD&A and in the 2020 Financial Statements are subject to the risks and uncertainties identified under the headings "Risks Factors" and "Forward Looking Statements" and those identified elsewhere in this MD&A. The Company has included the non-IFRS measures of EBITDA, normalized EBITDA, distributable cash, same stores sales growth or SSSG, payout ratio, DIV Royalty Entitlement, adjusted royalty income and adjusted revenue 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") for the year ended December 31, 2020, copies of which are available on SEDAR at [www.sedar.com](http://www.sedar.com).

### 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 are intended to allow the Company to pay a dividend to shareholders, while increasing the dividend as distributable cash per share allows.

At the special meeting of DIV shareholders held on October 14, 2020, DIV shareholders passed a special resolution to approve the continuance of DIV from the *Canada Business Corporations Act* to the Province of British Columbia under the *Business Corporations Act* (British Columbia) (the "Continuance"). The Continuance was effective October 15, 2020.

The Company's revenue for the year ended December 31, 2020 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 stores in the royalty pool (the "Mr. Lube Royalty Pool"). As at December 31, 2020, Mr. Lube had 176 locations, of which 122 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. See "Mr. Lube" below for further information.
- Sutton Group Realty Services Ltd. ("Sutton"): royalties are based on the number of Sutton agents in the royalty pool (the "Sutton Royalty Pool"). As at December 31, 2020, 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. See "Sutton" below for further information.
- 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"). See "AIR MILES® Reward Program" below for further information.
- Mr. Mikes Restaurants Corporation ("Mr. Mikes"): royalties are based on the notional system sales of Mr. Mikes restaurants in the royalty pool (the "Mr. Mikes Royalty Pool"). As at December 31, 2020, Mr. Mikes had 43 restaurants, of which 38 were in the Mr. Mikes Royalty Pool. In addition to the royalty, Mr. Mikes pays the Company a management fee of approximately \$0.04 million per year for strategic and other services. See "Mr. Mikes" below for further information.
- Nurse Next Door Professional Homecare Services Inc. ("Nurse Next Door"): DIV's royalty entitlement from Nurse Next Door (the "DIV Royalty Entitlement") is equal to approximately \$4.8 million per annum, and grows at a fixed rate of 2.0% per annum. The DIV Royalty Entitlement is not reported as revenue under IFRS. See "Non-IFRS Measures" below for further information. In addition to the royalty, Nurse Next Door pays the Company a management fee of approximately \$0.075 million per year for strategic and other services, prorated for partial years. See "Nurse Next Door" below for further information.

- Oxford Learning Centres, Inc. (“Oxford”): royalties are based on the system sales of Oxford locations in the royalty pool (the “Oxford Royalty Pool”). As at December 31, 2020, Oxford had 154 locations, of which 146 were in the Oxford Royalty Pool. In addition, Oxford pays the Company a management fee of approximately \$0.04 million per year for strategic and other services. See “Oxford” below for further information.

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, Sutton, Mr. Mikes, Nurse Next Door and Oxford 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. See “Risk Factors” for further information.

#### COVID-19

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. The situation remains dynamic and the ultimate duration and magnitude of the impact on the economy, our business and the respective businesses of our Royalty Partners (including their respective franchisees) are not known at this time. Governments worldwide, including the Canadian federal and provincial governments, enacted emergency measures to combat the spread of the virus, which have included, among others, the temporary closure of non-essential businesses (in most jurisdictions), restrictions on business operations, bans on public gatherings over certain sizes and travel advisories to avoid non-essential travel. These measures have triggered significant disruptions to businesses worldwide, including the businesses of DIV’s Royalty Partners (including their respective franchisees).

DIV’s Royalty Partners (including their respective franchisees) have had, and are expected to continue to have, significant interruptions to their respective businesses in the months ahead (see “Royalty Pools” below for further details), including prolonged periods of low system sales on which certain royalties are based and low revenues on which the Royalty Partners rely to pay royalties to DIV. Certain governments have previously eased some of the restrictions put in place to fight the COVID-19 pandemic. However, due to a growing number of COVID-19 cases in recent months, certain governments have re-imposed certain restrictions and added new restrictions to fight the COVID-19 pandemic. In addition, the rates of recovery for DIV’s Royalty Partners will be dependent upon, among other things, the availability and effectiveness of vaccines for the COVID-19 virus, government responses, rates of economic recovery, precautionary measures taken by consumers and the rate at which social restrictions will be lifted. Accordingly, DIV does not know the full extent of the financial impact of such interruptions going forward, the timeline for restoring normal operations for its Royalty Partners (including their respective franchisees) or the potential changes in consumer behaviors as a result of the COVID-19 pandemic. Previously experienced improvement trends by certain of DIV’s Royalty Partners may not continue and may regress, and in certain cases have regressed (see “Royalty Pools” below for further details). Certain government support programs which have been helpful to DIV’s Royalty Partners, their respective franchisees and the general population have been terminated or modified, and those remaining government support programs may be terminated or modified at any time. Following the termination of such programs, or the reduction of amounts available under such programs or other modifications, Royalty Partners and franchisees currently receiving support under those programs may need to find alternative sources of financial support and may make requests for such support from, among other parties, DIV and its Royalty Partners, as applicable. There is also a risk that certain Royalty Partner franchise locations that are currently temporarily closed may not reopen, and those that are open may be required to close again in the future. The ongoing effects of COVID-19 could impact DIV’s and its Royalty Partners’ (as well as their respective franchisees’) ability to obtain debt and equity financing, and result in an impairment in the value of long-lived assets, or decreases in revenue or the profitability of ongoing operations. See “Results of Operations – Impairment Loss” below.

As announced on March 31, 2020, given the economic uncertainty facing DIV and its Royalty Partners as a result of the COVID-19 pandemic, the Board of Directors of the Company (the “Board” or the “Board of Directors”) approved changing the monthly dividend from \$0.01958 per share (\$0.2350 per share on an annualized basis) to \$0.01667 per share (\$0.20 per share on an annualized basis) effective with the dividend declared in the month of April 2020. The Board continues to believe the reduction of the monthly dividend was a prudent measure to preserve capital and maintain liquidity in the current market environment. In addition, starting with the April 2020 monthly dividend, the Board approved the temporary suspension of the dividend reinvestment plan (“DRIP”), which was subsequently reinstated effective with the January 2021 monthly dividend. See “Dividends to Shareholders”, below for further discussion.

Further discussion is included throughout this MD&A with respect to specific impacts of COVID-19 on the respective businesses of DIV’s Royalty Partners. In addition, please see “Risk Factors”, for further information.

## FINANCIAL HIGHLIGHTS

(000's except per share amounts)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
<i>Consolidated:</i>				
Revenue <sup>1,2</sup>	\$ 8,915	\$ 8,408	\$ 30,496	\$ 30,463
Adjusted revenue <sup>1, 2, 3, 4</sup>	10,142	9,023	35,332	31,078
Royalty income <sup>1,2</sup>	8,804	8,309	30,074	30,114
Adjusted royalty income <sup>1, 2, 3, 4</sup>	10,031	8,924	34,910	30,729
Normalized EBITDA <sup>4</sup>	9,517	8,276	32,708	28,428
Distributable cash <sup>4</sup>	7,073	6,592	23,747	22,322
Income from operations <sup>5</sup>	2,005	7,325	680	26,348
Net income (loss) <sup>5</sup>	847	4,189	(8,885)	14,044
Dividends declared	6,050	6,159	24,665	24,234
Basic and diluted earnings (loss) per share <sup>5</sup>	\$ 0.01	\$ 0.04	\$ (0.07)	\$ 0.13
Distributable cash flow per share <sup>4</sup>	0.06	0.06	0.20	0.21
Dividends declared per share	0.05	0.06	0.21	0.22
Total assets <sup>6</sup>	\$ 358,396	\$ 345,266	\$ 358,396	\$ 345,266
Total non-current financial liabilities <sup>6</sup>	158,236	141,999	158,236	141,999
<i>Adjusted Revenue<sup>4</sup> by Royalty Partner</i>				
Mr. Lube	\$ 4,232	\$ 4,240	\$ 15,414	\$ 16,222
AIR MILES	1,940	2,140	7,026	7,751
Sutton	1,033	1,011	3,415	4,006
Mr. Mikes <sup>2</sup>	812	1,007	1,845	2,474
Oxford <sup>1</sup>	879	-	2,720	-
Nurse Next Door <sup>3</sup>	1,246	625	4,912	625
Mr. Lube SSSG <sup>4</sup>	1.1%	2.1%	-4.4%	4.1%
Oxford SSSG <sup>4, 7</sup>	-22.9%	n / a	-26.1%	n / a

1) 2020 figures include royalties and management fees from Oxford from the date of the Oxford Rights (defined below) acquisition on February 20, 2020.

2) 2019 figures include royalties and management fees from Mr. Mikes from the date of the MRM Rights (defined below) acquisition on May 20, 2019.

3) 2019 and 2020 figures include the impact of the DIV Royalty Entitlement and management fees received from Nurse Next Door, with 2019 figures including such amounts from the date of the acquisition of the NND Rights (defined below) on November 15, 2019.

4) Adjusted revenue, adjusted royalty income, 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 "Royalty Pools", "EBITDA, Normalized EBITDA and Distributable Cash" and "Description of Non-IFRS and Additional IFRS Measures" in this MD&A.

5) A non-cash impairment of \$25.9 million was recorded during the year ended December 31, 2020, of which \$19.8 million was related to the MRM Rights (defined below) and \$6.1 million was related to the OX Rights (defined below). For additional information see "Results of Operations – Impairment of Intangible Asset".

6) At period end.

7) After the impact of foreign currency translation, SSSG was -22.9% for the three months ended December 31, 2020 and -25.9% for the period from February 20, 2020 to December 31, 2020.

## ROYALTY POOLS

(000's)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Mr. Lube	\$ 4,177	\$ 4,186	\$ 15,196	\$ 16,008
AIR MILES®	1,940	2,140	7,026	7,751
Sutton	1,006	986	3,327	3,906
Mr. Mikes <sup>1</sup>	812	997	1,839	2,449
Oxford <sup>2</sup>	869	-	2,686	-
<b>Royalty income</b>	<b>\$ 8,804</b>	<b>\$ 8,309</b>	<b>\$ 30,074</b>	<b>\$ 30,114</b>
DIV Royalty Entitlement <sup>3</sup>	1,227	615	4,836	615
<b>Adjusted royalty income<sup>4</sup></b>	<b>\$ 10,031</b>	<b>\$ 8,924</b>	<b>\$ 34,910</b>	<b>\$ 30,729</b>
Management fees <sup>1, 2, 3</sup>	111	99	422	349
<b>Adjusted revenue<sup>4</sup></b>	<b>\$ 10,142</b>	<b>\$ 9,023</b>	<b>\$ 35,332</b>	<b>\$ 31,078</b>

- 1) 2019 figures include royalties and management fees from Mr. Mikes from the date of the MRM Rights acquisition on May 20, 2019.
- 2) 2020 figures include royalties and management fees from Oxford from the date of the Oxford Rights acquisition on February 20, 2020.
- 3) 2019 and 2020 figures include the impact of the DIV Royalty Entitlement and management fees received from Nurse Next Door, with 2019 figures including such amounts from the date of the acquisition of the NND Rights (defined below) closed on November 15, 2019.
- 4) Adjusted royalty income and adjusted revenue are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, refer to "Description of Non-IFRS and Additional IFRS Measures" in this MD&A.

### Mr. Lube

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.

On August 19, 2015, ML LP licensed the ML Rights to Mr. Lube for 99 years, in exchange for an initial royalty payment equal to 6.95% of the system sales, with the exception of system sales on tires and rims ("Tire Sales") that are subject to a royalty rate of 2.5% (collectively, the "Mr. Lube Royalty Rate") of flagship Mr. Lube locations in the Mr. Lube Royalty Pool.

Mr. Lube has the option, subject to meeting certain performance criteria, to increase the Mr. Lube Royalty Rate on non-Tire Sales in four 0.5% increments. On May 1, 2018, the royalty rate paid by Mr. Lube on non-Tire Sales was increased by 0.5% from 6.95% to 7.45%. The royalty rate on Tire Sales remains unchanged at 2.5%. See "Mr. Lube Royalty Rate Increase and Mr. Lube Royalty Pool Additions" below.

Subject to certain performance criteria being met, the Mr. Lube Royalty Pool is adjusted annually on May 1 (the "Adjustment Date") to include new Mr. Lube locations and to remove Mr. Lube locations that have been permanently closed during the previous year. On May 1, 2019 (the "2019 Adjustment Date"), the Mr. Lube Royalty Pool was adjusted to include the royalties from four new Mr. Lube locations. With the adjustment for these four openings, the Mr. Lube Royalty Pool had 122 locations on May 1, 2019. The initial consideration paid to Mr. Lube for the estimated net additional royalty revenue was \$2.7 million, representing 80% of the total estimated consideration. The remaining consideration payable was originally scheduled to be paid to Mr. Lube on May 1, 2020, based on their actual system sales for the year ended December 31, 2019. The impact of COVID-19 on Mr. Lube and DIV would create an anomalous result in the determination of the remaining consideration payable by DIV to Mr. Lube. Accordingly, at Mr. Lube's request, DIV has agreed to defer the payment of the remaining consideration owing to Mr. Lube to a subsequent adjustment date being no earlier than May 1, 2021. See "Mr. Lube Royalty Rate Increase and Mr. Lube Royalty Pool Additions" below.

Given the uncertainty of the current economic environment due to COVID-19, Mr. Lube elected not to add any eligible Mr. Lube Locations to the Mr. Lube Royalty Pool on May 1, 2020.

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 location for the first 12-month period in which it was included in the Mr. Lube Royalty Pool, 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.

#### *Mr. Lube Royalty Rate Increase and Mr. Lube Royalty Pool Additions*

On November 9, 2020, DIV and Mr. Lube entered into an amendment to the amended and restated limited partnership agreement of ML LP (the "LP Amendment") to confirm the terms on which (i) the Mr. Lube Royalty Rate on non-tire sales at flagship locations will be increased by 0.5% from 7.45% to 7.95% effective May 1, 2021, and (ii) the Mr. Lube Royalty Pool will be adjusted to include royalties from 13 additional Mr. Lube locations effective May 1, 2021. The Mr. Lube Royalty Rate on tire sales will remain unchanged at 2.50%. The impact of the Mr. Lube Royalty Rate increase and the addition of the 13 locations to the Mr. Lube Royalty Pool on May 1, 2021 is an estimated accretion of over 1 cent to distributable cash per share, which is expected to further improve DIV's payout ratio.

The LP Amendment provides that the consideration payable to Mr. Lube for the second Mr. Lube Royalty Rate increase on non-tire sales on May 1, 2021 from 7.45% to 7.95% is to be calculated based on a 7.25x multiple of the incremental annual royalty revenue from such increase, which consideration will be paid in cash. The Mr. Lube Royalty Rate increase is currently expected to generate additional royalty revenue for DIV of approximately \$1.15 million per annum, based on the forecasted non-tire system sales of the locations in the Mr. Lube Royalty Pool of \$230 million (previously forecast to be \$227 million), after adjusting for the impact of COVID-19 and the addition of the 13 locations to the Mr. Lube Royalty Pool, as described below. The total consideration for the increase of the Mr. Lube Royalty Rate is currently estimated to be \$8.3 million (previously estimated to be \$8.2 million), and will be paid to Mr. Lube on May 1, 2021 in cash. The actual amount of the consideration payable for the increase to the Mr. Lube Royalty Rate has not yet been determined and will be calculated in accordance with the LP Amendment, a copy of which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

The LP Amendment also provides that the consideration payable to Mr. Lube for the addition of the 13 locations to the Mr. Lube Royalty Pool on May 1, 2021 is to be calculated based on a 7.25x multiple of the incremental annual royalty revenue to be added to the Mr. Lube Royalty Pool from such additions, which consideration will be paid in cash. The initial consideration payable to Mr. Lube on May 1, 2021 for the estimated net additional royalty revenue from the 13 Mr. Lube locations to be added to the Mr. Lube Royalty Pool is currently estimated to be \$6.9 million (previously estimated to be \$6.2 million), representing 80% of the total current estimated consideration of \$8.7 million (previously estimated to be \$7.8 million). The remaining consideration payable for the net additional royalty revenue related to 7 of the 13 locations will be paid to Mr. Lube on May 1, 2022 and will be adjusted to reflect the actual system sales of these locations for the year ending December 31, 2021. The remaining consideration payable for the net additional royalty revenue related to 6 of the 13 locations will be paid to Mr. Lube on May 1, 2023 and will be adjusted to reflect the actual system sales of these locations for the year ending December 31, 2022. The actual amount of the consideration payable for the addition of the 13 Mr. Lube locations to the Mr. Lube Royalty Pool has not yet been determined and will be calculated in accordance with the LP Amendment, a copy of which has been filed on SEDAR at [www.sedar.com](http://www.sedar.com).

#### *Fourth Quarter*

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were \$58.6 million in the fourth quarter of 2020, compared to \$58.0 million in the fourth quarter of 2019. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 1.1% in the fourth quarter of 2020 compared to 2.1% in the fourth quarter of 2019. Due to a growing number of COVID-19 cases in certain regions, certain governments have increased restrictions to fight the COVID-19 pandemic in the fourth quarter of 2020 and early 2021, including restrictions aimed to reduce travel and encourage or mandate work from home arrangements which restrictions negatively impacted sales at Mr. Lube locations in the second half of the fourth quarter and in the current year to date. In January 2021, SSSG for the 140 flagship locations (122 of which are in the Mr. Lube Royalty Pool) was approximately -7.8% year-over-year and February 2021 SSSG was -7.7%.

Royalty income was \$4.2 million in the fourth quarter of 2020, and was flat compared to the fourth quarter of 2019.

#### *Year*

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were \$211.3 million for the year ended December 31, 2020, compared to \$219.4 million in the 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, 2020 compared to 4.1% for the year ended December 31, 2019. The decrease in SSSG was related to the COVID-19 pandemic, which resulted in a slow-down in consumer activity across the country and temporary recommendations from all levels of government for people to work from home and self-isolate. Although the business of Mr. Lube's franchisees was classified as an essential service in British Columbia, Ontario and Quebec, a significant decrease in customer visits in the first half of 2020 resulted in negative SSSG for the period.

Royalty income decreased to \$15.2 million for the year ended December 31, 2020, compared to \$16.0 million in the prior year. The decrease in royalty income was due to the negative SSSG related to the COVID-19 pandemic, partially offset by the additional royalty income from the four Mr. Lube locations added to the Royalty Pool on May 1, 2019.

Mr. Lube management believes that the broader impact of the COVID-19 pandemic on future operations and financial performance remains uncertain. However, Mr. Lube management has been proactive in enacting measures to support franchisee cash flow, including negotiating rent deferrals and concessions, temporarily suspending marketing contributions, arranging for improved payment terms with suppliers and promoting government sponsored initiatives.

As at December 31, 2020, Mr. Lube had positive working capital with \$1.0 million of debt outstanding and was in compliance with all financial covenants.

#### **AIR MILES® Reward Program**

AM Royalties Limited Partnership ("AM LP"), a wholly owned subsidiary of the Company, owns the Canadian AIR MILES® trademarks and certain related Canadian intellectual property rights (collectively, the "AIR MILES® Rights"). 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. Gross billings for the AIR MILES® Reward Program is

derived from several AIR MILES® metrics, with AIR MILES® reward miles issued being the primary metric, and other metrics including AIR MILES® reward miles redeemed, service revenue, commissions and promotional items. Variations in these metrics collectively affect DIV's royalty income under the AIR MILES® Licences. LoyaltyOne is a subsidiary of Alliance Data Systems Inc. ("ADS"), a NYSE listed company.

#### *Fourth Quarter and Year*

Royalty income from the AIR MILES® Licences decreased to \$1.9 million in the fourth quarter of 2020, compared to \$2.1 million in the fourth quarter of 2019. Royalty income from the AIR MILES® Licences decreased to \$7.0 million for the year ended December 31, 2020, compared to \$7.8 million in the prior year.

According to ADS' news release dated January 28, 2021, the AIR MILES® reward miles issued decreased by 8.8% for the three months and 9.9% for the year ended December 31, 2020, reflecting a decline in discretionary spending, including credit card spend and delays in promotions by sponsors. In addition, ADS announced that AIR MILES® reward miles redeemed decreased by 30.1% for the three months and 29.2% for the year ended December 31, 2020, reflecting the impact of the COVID-19 pandemic on travel-related categories, partially offset by strength from merchandise redemptions. According to ADS, on a sequential basis, AIR MILES® reward miles issued and redeemed improved 9% and 22% in Q4 2020 compared to Q3 2020, respectively, reflecting better business conditions than in Q3 2020. ADS also noted that LoyaltyOne is continuing to pivot the AIR MILES® reward portfolio to emphasize more non-travel options, which drove higher merchandise redemptions in Q4 2020.

#### **Sutton**

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").

On June 19, 2015, SGRS LP licensed the SGRS Rights to Sutton for 99 years in exchange for a monthly royalty payment (the "Sutton Royalty Rate"), based on the number of agents in the Sutton Royalty Pool. The Sutton Royalty Rate grows by 2.0% per year, effective July 1<sup>st</sup> of each year. On July 1, 2020, the monthly Sutton Royalty Rate was increased from \$60.887 per agent to \$62.105 per agent. There are currently 5,400 agents in the Sutton Royalty Pool.

#### *Fourth Quarter*

Royalty income was \$1.0 million in the fourth quarter of 2020, which reflects the contractual 2% annual increase effective July 1, 2020. During the fourth quarter of 2020, 100% of the royalty income was collected from Sutton.

#### *Year*

With the dramatic slow-down of residential real estate activity due to COVID-19 in the spring, DIV waived 50% of Sutton's March 2020 royalty and management fees that were due in April. In addition, DIV waived 75% of Sutton's April and May 2020 royalty and management fees (due in May and June 2020, respectively). Sutton likewise provided its franchisees with a similar waiver over three months to help them manage through such difficult period. Two of Sutton's primary markets, Vancouver and Toronto, have experienced strong recoveries following a period of low transactional activity in April and May 2020. Since June 2020, Sutton has paid its scheduled fixed monthly royalty and management fee payments.

Royalty income was \$3.4 million for the year ended December 31, 2020, compared to \$4.0 million in the prior year. The decrease in royalty income was due to the above noted royalty waivers granted to Sutton. DIV will continue to assess the impact of COVID-19 on Sutton's business and liquidity. As at December 31, 2020, Sutton had positive working capital and less than \$0.1 million of debt outstanding.

#### **Mr. Mikes**

MRM Royalties Limited Partnership ("MRM LP"), an entity controlled by the Company, owns the trademarks and certain related other intellectual property rights utilized by Mr. Mikes in its restaurant business (the "MRM Rights").

On May 20, 2019, MRM LP licensed the MRM Rights to Mr. Mikes for 99 years, in exchange for an initial royalty payment equal to 4.35% of notional system sales of the Mr. Mikes restaurants in the Mr. Mikes Royalty Pool. The royalty was structured to grow at a fixed rate of 2% per annum for the first four years and thereafter will fluctuate based on the same-store-sales growth of the Mr. Mikes locations in the Mr. Mikes Royalty Pool.

#### *Fourth Quarter and Year*

On March 18, 2020, in response to the evolving circumstances relating to the COVID-19 pandemic, Mr. Mikes proactively closed all of its dining rooms and bars across Canada on a temporary basis. Shortly thereafter, Mr. Mikes advised DIV that Mr. Mikes would likely be unable to pay its fixed royalty payments to DIV. In response, DIV waived 100% of Mr. Mikes' fixed royalty and management fee payment for the period from February 24, 2020 to July 12, 2020. Partial royalty and management fee relief was granted to Mr. Mikes for the remainder of 2020.

Various governments temporarily eased some of the restrictions put in place to fight the COVID-19 pandemic and the majority of Mr. Mikes restaurants re-opened for in-restaurant or patio dining in the summer and fall of 2020 at a reduced capacity. In the fourth quarter of 2020 and early 2021, certain governments have implemented increased restrictions in various regions to combat the growing number of COVID-19 cases, including restrictions on restaurant operations. Overall SSSG for Mr. Mikes restaurants in the royalty pool, including stores that were temporarily closed due to the COVID-19 pandemic, was approximately -15% in the third quarter of 2020 and -33% in the fourth quarter of 2020. As some of these restrictions were subsequently lifted, currently all of 43 Mr. Mikes restaurants are open for in-restaurant or patio dining at a reduced capacity, based on government mandated regulations in each jurisdiction.

Restaurants are taking additional measures to ensure the health and safety of their employees and customers to comply with new regulations. These new regulations may be prohibitive, and customers may be discouraged with long wait times when dining rooms operate at reduced capacity and staff must undertake extensive cleaning procedures in between customers. Notwithstanding the partial re-opening of some Mr. Mikes restaurants, Mr. Mikes continues to expect a slow recovery as a result of recent government restrictions on operations.

Royalty income from Mr. Mikes was \$0.8 million for the three months and \$1.8 million for the year ended December 31, 2020, which reflects the royalty relief granted to Mr. Mikes. Had there been no royalty relief granted to Mr. Mikes, the contractual fixed royalty amount would have been \$0.9 million for the three months and \$4.0 million for the year ended December 31, 2020. The fourth quarter of 2020 reflected stronger than anticipated results at Mr. Mikes in light of the COVID-19 pandemic. However, with stricter government restrictions in recent months, more than 50% of Mr. Mikes restaurants are currently closed for in-restaurant or patio dining. For the last Mr. Mikes royalty payment period in 2020, DIV collected 50% of the fixed royalty amount. DIV expects continued royalty and management fee relief will be required by Mr. Mikes until such time as all government restrictions are lifted and the business stabilizes.

As at the end of Mr. Mikes' fourth fiscal quarter of 2020, Mr. Mikes had positive working capital and no debt on its operating line of credit. Mr. Mikes has advised DIV that Mr. Mikes was in compliance with the financial covenants under its operating line of credit at the end of its fourth quarter, with such compliance being based in part on the royalty relief provided by DIV to date and the nature of the calculation of such covenants.

While DIV does not know the full extent of the impact of COVID-19 on the Mr. Mikes business, or the pace of economic recovery, DIV expects COVID-19 to continue to have a negative impact on Mr. Mikes' operations. In light of the aforementioned developments related to the COVID-19 pandemic, the Company recorded a non-cash impairment charge of \$19.8 million during the year ended December 31, 2020 related to the MRM Rights. See "Results of Operations – Impairment Loss" below for further information.

## **Oxford**

On February 20, 2020, DIV acquired through OX Royalties Limited Partnership ("OX LP"), an entity controlled by DIV, the trademarks and certain other intellectual property rights utilized by Oxford in its franchised supplementary education services business (the "Oxford Rights") for a purchase price of \$44.0 million, plus a retained interest issued to Oxford of 10,493 Ordinary LP units, 100,000,000 Class B, 100,000,000 Class C, 100,000,000 Class D, 100,000,000 Class E, 100,000,000 Class F, 100,000,000 Class G, and 100,000,000 Class H limited partner units of OX LP having an agreed aggregate value of approximately \$33,000. The cash purchase price of \$44.0 million was financed by \$37.0 million drawn from DIV's Acquisition Facility (defined below) and DIV's cash on hand following the drawdown of the remaining \$7.0 million of available capacity under the existing credit facility of NND Holdings LP.

OX LP licensed the Oxford Rights to Oxford for 99 years in exchange for a royalty equal to 7.67% of the gross sales (the "Oxford Royalty Rate") from Oxford's 146 franchise and corporate locations in Canada and the United States included in the royalty pool (the "Oxford Royalty Pool"). So long as certain royalty coverage tests are met, Oxford will be able to add eligible new Oxford locations to the Oxford Royalty Pool on May 1<sup>st</sup> of each year during the life of the royalty commencing on May 1, 2021. In consideration for the addition of net new Oxford locations into the Oxford Royalty Pool, Oxford will be entitled, subject to TSX approval, to exchange certain of the limited partnership units of OX LP held by Oxford for common shares of DIV (or cash, at DIV's election).

Oxford will also, subject to meeting certain performance criteria, be provided opportunities to increase the Oxford Royalty Rate in six 0.25% increments during the life of the royalty. In consideration for each incremental Oxford Royalty Rate increase, Oxford will be entitled, subject to TSX approval, to exchange certain of the limited partnership units of OX LP for common shares of DIV (or cash, at DIV's election).

### *Fourth Quarter and Year*

System sales for the Oxford locations within the Oxford Royalty Pool was \$11.3 million for the three months ended December 31, 2020 and \$35.0 million for the period from February 20, 2020 to December 31, 2020. Oxford locations in the Oxford Royalty Pool generated SSSG on a constant currency basis of -22.9% for the three months ended December 31, 2020 (after the impact of foreign currency translation, SSSG was -22.9%) and -26.1% for the period from February 20, 2020 to December 31, 2020 (after the impact of foreign currency translation, SSSG was -25.9%). Oxford's SSSG was negatively impacted by the COVID-19 pandemic. In mid-March, Oxford management pivoted its business to provide online tutoring with over 95% of its locations currently able to provide this service. In September 2020, over 90% of Oxford's locations re-opened



for in-centre services at a reduced capacity. However, due to a growing number of COVID-19 cases in various regions in recent months, certain governments have required the closure of in-person tutoring at many locations, including Ontario, Quebec, Alberta, Manitoba and Saskatchewan. Although some of these restrictions were subsequently lifted, we expect there to be some softness in the first quarter of 2021. Currently, approximately 85% of Oxford's locations are open for in-centre services at a reduced capacity. In addition, at the request of Oxford, DIV waived the make-whole payments for 2020 and 2021 in respect to two Oxford Locations that permanently closed.

Royalty income from Oxford was \$0.9 million for the fourth quarter of 2020 and \$2.7 for the period from February 20, 2020 to December 31, 2020. As at December 31, 2020, Oxford had less than \$0.1 million of debt outstanding.

DIV does not know the full extent of the impact of COVID-19 on the Oxford business, or the pace of economic recovery. In the short term, DIV expects COVID-19 to continue to have a negative impact on the Oxford business, as the royalty income from Oxford is less than originally estimated when the acquisition of the OX Rights were completed in February 2020. As a result, the Company recorded a non-cash impairment charge of \$6.1 million during the year ended December 31, 2020 in connection with the OX Rights. See "Results of Operations – Impairment Loss" below for further information.

### **Nurse Next Door**

On November 15, 2019, NND Royalties Limited Partnership ("NND Royalties LP") licensed the trademarks and certain other intellectual property rights utilized by Nurse Next Door in its premium home care business (the "NND Rights") to Nurse Next Door for 99 years in exchange for a gross royalty (the "Gross Royalty") equal to the greater of (i) 6% of gross sales from Nurse Next Door franchises and corporate stores in Canada and the United States, and (ii) approximately \$4.8 million per year, which amount shall increase at a fixed rate of 2% per annum (being the DIV Royalty Entitlement). To the extent the Gross Royalty is greater than the DIV Royalty Entitlement, Nurse Next Door will be entitled to receive the excess amount in the form of a cash distribution paid by NND Royalties LP on the NND Exchangeable Units held by Nurse Next Door (the "Nurse Next Door Distribution Entitlement").

Subject to certain royalty coverage tests being met, Nurse Next Door is able to sell incremental royalties to NND Royalties LP commencing on February 1, 2021. In consideration for the incremental royalty, Nurse Next Door will be entitled, subject to TSX approval, to indirectly exchange certain of the limited partnership units of NND Royalties LP held by Nurse Next Door for common shares of DIV, or cash at DIV's election, based on a formula that is intended to be accretive to DIV shareholders.

Nurse Next Door has the ability to repurchase the NND Rights from NND Royalties LP (the "NND Buy-Out Option") at any time after November 15, 2026. Due to the NND Buy-Out Option, NND Royalties LP does not satisfy the tests under IFRS to establish control over the NND Rights; accordingly, the Company cannot recognize the NND Rights as an intangible asset on its consolidated statement of financial position and the transaction is accounted for as a financing arrangement. Under IFRS, DIV is required to record its investment in NND Royalties LP as a financial instrument and the income earned from this investment as finance income, which does not allow for a direct comparison of the income received from this investment to the royalties received from DIV's other Royalty Partners, which attract different treatment under IFRS. To allow readers to assess the performance of DIV's royalty arrangements with Nurse Next Door on a basis consistent with the royalties received from DIV's other Royalty Partners, the Company reports the DIV Royalty Entitlement as a Non-IFRS measure. See "Description of Non-IFRS and Additional IFRS Measures".

#### *Fourth Quarter and Year*

The DIV Royalty Entitlement was \$1.2 million for the three months and \$4.8 million for the year ended December 31, 2020. Nurse Next Door's home health care services were considered an essential service across all its markets where such determinations were made by government authorities and all of Nurse Next Door's franchisees were open for business.

As previously disclosed, St. Joseph Health Personal Care Services, LLC ("St. Joseph") terminated its master license agreement with Nurse Next Door, which covers 42 Nurse Next Door franchise locations in California, effective August 14, 2020. Nurse Next Door has advised DIV that this termination resulted in the payment of a termination fee of approximately US\$1.1 million by St. Joseph to Nurse Next Door in September 2020. This amount is required to be held in a segregated bank account by Nurse Next Door until such time as certain conditions for its release set forth in the governance agreement between DIV, NND Royalties LP, Nurse Next Door and certain other parties are met. Nurse Next Door expects to focus its business development efforts in California, which is an attractive market where Nurse Next Door intends to sell approximately 50 new franchises following the expiry of the 12-month restricted period with St. Joseph, which will end in August 2021. These new franchises, once sold, are expected to be subject to Nurse Next Door's standard franchise fees and other charges, which are higher than the rates paid by St. Joseph under the master licence agreement, and are expected by Nurse Next Door to achieve higher sales volumes than the St. Joseph's franchises.

As previously disclosed, during the year ended December 31, 2020, Nurse Next Door received notices from certain franchisees of their purported termination of their franchise agreements, following which they ceased paying franchise fees and, in some cases, started competing businesses. Subsequent to the year end, Nurse Next Door settled a number of these disputes in Canada on the basis of these former franchisees making certain termination payments to Nurse Next Door on account of Nurse Next Door's claims arising under the franchise agreements, including those to legal costs. However, Nurse Next Door is continuing to pursue additional legal remedies against certain of such franchisees. DIV expects that the

termination of the St. Joseph's contract and the franchise agreement terminations noted above may cause Nurse Next Door to temporarily generate less than full royalty coverage in the short term.

In recent months, Nurse Next Door has received a high level of interest from existing franchisees about adding to their current territories and from potential franchisees enquiring about franchise opportunities. During the three months ended September 30, 2020, Nurse Next Door signed 24 new franchises primarily in major metropolitan markets (8 in Canada, 13 in the US and 3 in Australia). The momentum continued in Q4 2020 where Nurse Next Door signed 17 new franchises (6 in Canada, 9 in the US and 2 in Australia). The initial franchise fees generated from the sale of these territories, along with the incremental franchise revenues from these new operations are expected to enhance Nurse Next Door's profitability and provide improved royalty coverage.

Nurse Next Door has a strong balance sheet with positive working capital and no debt outstanding at December 31, 2020. Accordingly, DIV currently expects Nurse Next Door to continue to make its royalty payments to DIV in full.

## 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,		Year ended December 31,	
	2020	2019	2020	2019
<b>Net income (loss)</b>	<b>\$ 847</b>	<b>\$ 4,189</b>	<b>\$ (8,885)</b>	<b>\$ 14,044</b>
Interest expense on credit facilities	1,729	1,596	7,014	6,053
Income tax expense (recovery)	349	1,635	(2,849)	5,698
<b>EBITDA<sup>1</sup></b>	<b>2,925</b>	<b>7,420</b>	<b>(4,720)</b>	<b>25,795</b>
Adjustments:				
Share-based compensation	232	347	1,326	1,476
Impairment loss	6,060	-	25,901	-
Other finance costs (income), net	6	251	(69)	332
Fair value adjustment on financial instruments	(926)	(346)	5,469	221
DIV Royalty Entitlement, net of NND Royalties LP expenses	1,220	604	4,801	604
<b>Normalized EBITDA<sup>1</sup></b>	<b>9,517</b>	<b>8,276</b>	<b>32,708</b>	<b>28,428</b>
Less: interest expense on credit facilities	(1,729)	(1,596)	(7,014)	(6,053)
Less: distributions on MRM units	-	(33)	(33)	(55)
Less: current tax expense	(729)	(227)	(1,979)	(1,223)
Add: interest income	14	172	65	1,225
<b>Distributable cash<sup>1</sup></b>	<b>\$ 7,073</b>	<b>\$ 6,592</b>	<b>\$ 23,747</b>	<b>\$ 22,322</b>
Distributable cash per share <sup>1</sup>	\$ 0.0585	\$ 0.0603	\$ 0.1998	\$ 0.2057
Dividends declared per share	0.0500	0.0563	0.2080	0.2231
<b>Payout Ratio<sup>1</sup></b>	<b>85.5%</b>	<b>93.2%</b>	<b>104.1%</b>	<b>108.5%</b>

1) EBITDA, normalized EBITDA, distributable cash, distributable cash per share 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,		Year ended December 31,	
	2020	2019	2020	2019
<b>Cash from operating activities</b>	\$ 4,985	\$ 8,039	\$ 22,102	\$ 22,959
Changes in working capital	831	(2,368)	963	188
Current tax expense	(729)	(227)	(1,979)	(1,223)
Taxes paid	1,224	-	2,447	-
Accrued interest on convertible debentures	756	755	-	-
Foreign exchange loss (gain)	6	3	1	8
Accrued DIV Royalty Entitlement, net of distributions	7	401	248	401
NND LP expenses	(7)	(11)	(35)	(11)
<b>Distributable cash<sup>1</sup></b>	<b>\$ 7,073</b>	<b>\$ 6,592</b>	<b>\$ 23,747</b>	<b>\$ 22,322</b>

1) Distributable cash is a non-IFRS measure and as such, does not have a standardized meaning under IFRS. For additional information, refer to the "Non-IFRS Measures" and "Additional IFRS Measures" in this MD&A.

#### *Distributable Cash*

For the three months ended December 31, 2020, distributable cash increased to \$7.1 million compared to \$6.6 million in the prior period (decrease of \$0.0018 per share). The increase in distributable cash was primarily due to higher adjusted revenue and lower salaries and benefits, partially offset by higher current tax expense, lower interest income and higher interest expense. The decrease in distributable cash per share was primarily due to a higher weighted average number of common shares outstanding for the three months ended December 31, 2020 compared to the prior period, partially offset by the increase in distributable cash.

For the year ended December 31, 2020, distributable cash increased to \$23.7 million compared to \$22.3 million in the prior period (decrease of \$0.0059 per share). The increase in distributable cash was due to higher adjusted revenue and lower salaries and benefits, largely offset by lower interest income, higher interest expense, an increase in professional fees and current tax expense. The decrease in distributable cash per share was primarily due to a higher weighted average number of common shares outstanding for the year ended December 31, 2020 compared to the prior year, partially offset by the increase in the distributable cash.

#### *Dividends Declared*

For the three months ended December 31, 2020, the Company declared dividends in the aggregate amount of \$6.1 million (\$0.0500 per share), compared to \$6.2 million (\$0.0563 per share) for the three months ended December 31, 2019. The decrease in the total amount of dividends declared was due to the decrease in the monthly dividend rate, partially offset by a higher weighted average number of common shares outstanding.

For the year ended December 31, 2020, the Company declared dividends in the aggregate amount of \$24.7 million (\$0.2080 per share), compared to \$24.2 million (\$0.2231 per share) in the prior period. The increase was due to a higher weighted average number of common shares outstanding, partially offset by a decrease in the monthly dividend rate.

#### *Payout Ratio*

The payout ratio is calculated by dividing the dividends declared by the distributable cash generated in that period. For the three months ended December 31, 2020, the payout ratio was 85.5%, a decrease when compared to the payout ratio for the three months ended December 31, 2019 of 93.2%. The decrease was primarily due to higher distributable cash and lower dividends declared, partially offset by a higher weighted average number of common shares outstanding. Due to seasonality in both AIR MILES® and Mr. Lube, the payout ratio in fourth quarter is typically stronger, while the payout ratio in the first quarter is typically weaker.

For the year ended December 31, 2020, the payout ratio was 104.1%, a decrease when compared to the payout ratio for the year ended December 31, 2019 of 108.5%. The decrease was primarily due to higher distributable cash, partially offset by a higher amount of dividends declared and a higher weighted average number of common shares outstanding. Dividends declared exceeded distributable cash by \$0.9 million during the year ended December 31, 2020. However, the Company's dividend reinvestment plan ("DRIP") was open for participation during the three months ended March 31, 2020, as described under the section "Dividends to Shareholders – Dividend Reinvestment Plan". As the dividends declared during the first quarter of 2020 were settled through a reinvestment in the Company's shares for participants in the DRIP, the payout ratio on a cash basis was 99.6% for the year ended December 31, 2020 and there was no cash shortfall.

As announced on March 31, 2020, starting with the April 2020 monthly dividend, the Board approved the temporary suspension of the DRIP, which was subsequently reinstated effective with the January 2021 monthly dividend.

## 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 2020 Financial Statements of the Company.

(000's)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Royalty income	\$ 8,804	\$ 8,309	\$ 30,074	\$ 30,114
Management fees	111	99	422	349
Revenues	8,915	8,408	30,496	30,463
Expenses				
Salaries and benefits	377	496	1,493	1,790
Share-based compensation	232	347	1,326	1,476
General and administration	157	171	621	593
Professional fees	84	69	475	256
Impairment loss	6,060	-	25,901	-
Income from operations	2,005	7,325	680	26,348
Interest expense on credit facilities	(1,729)	(1,596)	(7,014)	(6,053)
Other finance (costs) income, net	(6)	(251)	69	(332)
Fair value adjustment on financial instruments	926	346	(5,469)	(221)
Income (Loss) before income taxes	1,196	5,824	(11,734)	19,742
Income tax expense (recovery)	349	1,635	(2,849)	5,698
Net income (loss) and comprehensive income (loss)	\$ 847	\$ 4,189	\$ (8,885)	\$ 14,044

## Revenue

### Fourth Quarter

Revenue for the three months ended December 31, 2020 was \$8.9 million compared to \$8.4 million in the prior year. After taking into account the DIV Royalty Entitlement related to Nurse Next Door, adjusted revenue was \$10.1 million for the three months ended December 31, 2020 and \$9.0 million in the prior year. Adjusted revenue increased in the fourth quarter due to the incremental adjusted revenues related to the Nurse Next Door transaction that closed in November 2019 and the acquisition of the Oxford Rights in February 2020, partially offset by the impact of the COVID-19 pandemic, which included royalty and management fee relief for Mr. Mikes and lower royalty income from the AIR MILES® Licenses.

### Year

Revenue for the year ended December 31, 2020 was \$30.5 million, which was flat compared to the prior year. After taking into account the DIV Royalty Entitlement related to Nurse Next Door, adjusted revenue was \$35.3 million for the year ended December 31, 2020 and \$31.1 million in the prior year. The increase in adjusted revenue was due to the incremental revenues related to the Nurse Next Door transaction, the acquisition of the Oxford Rights, the acquisition of the MRM Rights and the addition of four locations to the Mr. Lube Royalty Pool in May 2019. The increase was partially offset by the impact of the COVID-19 pandemic, which included negative SSSG at Mr. Lube, lower royalty income from the AIR MILES® Licenses and the royalty and management fee relief granted to Mr. Mikes and Sutton.

## Salaries and Benefits

### Fourth Quarter and Year

Salaries and benefits expense decreased by \$0.1 million for the three months and \$0.3 million for the year ended December 31, 2020, when compared to the same prior periods. The decrease was primarily due to the Company's President and CEO receiving 50% of his incentive compensation in restricted share units ("RSUs") in lieu of cash. The compensation received in RSUs is recognized as share-based compensation.

## **Share-based Compensation**

### *Fourth Quarter and Year*

Share-based compensation decreased by \$0.1 million for the three months and \$0.2 million for the year ended December 31, 2020, when compared to the same prior periods. The decrease was due to the full amortization of the share options and certain restricted share units in the fourth quarter of 2020, partially offset by additional restricted share units granted in 2020.

## **General and Administration**

### *Fourth Quarter and Year*

General and administration expense for the three months and year ended December 31, 2020 were comparable to the same prior periods.

## **Professional Fees**

Professional fees are comprised of legal, audit, tax, and advisory services.

### *Fourth Quarter*

Professional fees for the three months ended December 31, 2020 were comparable to the prior period.

### *Year*

The increase in professional fees of \$0.2 million for the year ended December 31, 2020 was due to higher legal and audit fees.

## **Impairment of Intangible Asset**

### *Fourth Quarter and Year*

The Company tests the carrying value of its intangible assets for impairment annually, or when there is an indication that an asset may be impaired.

In connection with the COVID-19 pandemic, on March 18, 2020, all Mr. Mikes restaurants were temporarily closed for in-restaurant dining. Notwithstanding the partial re-opening of certain Mr. Mikes restaurants, Mr. Mikes is currently experiencing constrained cash flows and has advised DIV that Mr. Mikes will likely be unable to pay its fixed royalty payments to DIV in full. In light of these developments, the Company performed an impairment assessment to determine if the carrying value of the MRM Rights is greater than its recoverable amount. Based on the assessment performed, the Company recorded a non-cash impairment of \$19.8 million related to the MRM Rights.

Oxford continues to be negatively impacted by the COVID-19 pandemic, which resulted in reduced capacity for in-centre services and the temporary closure of in-person tutoring at various locations. The royalty currently generated by Oxford is less than the original estimates when the acquisition of the OX Rights were completed in February 2020. In addition, there is significant uncertainty surrounding the timing of the recovery of Oxford's operations to pre-COVID levels. As a result, the Company performed an impairment assessment to determine if the carrying value of the OX Rights is greater than its recoverable amount. Based on the assessment performed, the Company recorded a non-cash impairment of \$6.1 million related to the OX Rights.

The significant estimates and assumptions used in the impairment tests performed are disclosed in the 2020 Financial Statements.

## **Interest Expense on Credit Facilities**

### *Fourth Quarter*

Interest expense on credit facilities increased by \$0.1 million for the three months ended December 31, 2020, when compared to the prior period. The increase was primarily due to the increase in the term loan facilities outstanding related to NND Holdings Limited Partnership ("NND Holdings LP") and OX LP.

### *Year*

Interest expense on credit facilities increased by \$1.0 million for the year ended December 31, 2020, when compared to the prior period. The increase was primarily due to the increase in the term loan facilities outstanding related to MRM LP, NND Holdings LP and OX LP, as well as the drawdown on DIV's acquisition facility (which was subsequently re-paid in full).

## Other Finance (Costs) Income, Net

The following table summarizes other finance costs, net of income, for the three months and year ended December 31, 2020 and 2019.

(000's)	Three months ended December 31,		Year ended December 31,	
	2020	2019	2020	2019
Finance income	\$ 14	\$ 172	\$ 65	\$ 1,225
Foreign exchange loss	(6)	(3)	(1)	(8)
Distributions on MRM units	-	(33)	(33)	(55)
Amortization of deferred financing fees	(212)	(170)	(822)	(617)
Accretion expense and other	198	(217)	860	(877)
	\$ (6)	\$ (251)	\$ 69	\$ (332)

### Fourth Quarter and Year

Other finance costs, net of income, decreased by \$0.2 million for the three months and \$0.4 million for the year ended December 31, 2020, compared to the same prior periods. The decrease was primarily due to the gain related to the Mr. Mikes promissory note, which was calculated as the difference between the carrying value of the promissory note and the revised present value upon revising the expected payment date. This gain was largely offset by lower interest income and higher amortization expense of deferred financing fees.

### Fair Value Adjustment on Financial Instruments

The fair value adjustment on financial instruments consists of fair value changes on the Company's interest rate swaps, the Company's investment in NND Royalties LP, the MRM LP exchangeable units and ML LP exchangeable units.

#### Fourth Quarter

The fair value gain on financial instruments for the three months ended December 31, 2020 consists of a \$1.1 million gain on the Company's investment in NND Royalties LP and a \$0.3 million gain on the interest rate swaps, partially offset by a \$0.2 million loss on the MRM LP exchangeable units and a \$0.2 million loss on the ML LP exchangeable units.

The fair value gain on financial instruments for the three months ended December 31, 2019 was related to a \$0.4 million gain on the interest rate swaps, partially offset by a \$0.1 million loss on the MRM LP exchangeable units.

#### Year

The fair value loss on financial instruments for the year ended December 31, 2020 consists of a \$3.6 million loss on the Company's investment in NND Royalties LP, a \$2.0 million loss on interest rate swaps and a \$0.2 million loss on the ML LP exchangeable units, partially offset by a \$0.3 million gain on the MRM LP exchangeable units. See "Financial and Other Instruments – Interest Risk" below. As described under the section "Royalty Pools – Nurse Next Door", DIV expects that Nurse Next Door may temporarily generate less than full royalty coverage in the short term. As a result, to reflect the increased risk, DIV increased the discount rate used to calculate the fair value of its investment in NND Royalties LP, which resulted in the \$3.6 million fair value loss.

The fair value loss on financial instruments for the year ended December 31, 2019 was related to a \$0.3 million loss on the Company's interest rate swaps, partially offset by a \$0.05 million gain on the Company's investment in NND Royalties LP and the MRM exchangeable units.

### Income Tax Expense

#### Fourth Quarter and Year

The income tax expense decreased by \$1.3 million for the three months and \$8.5 million for the year ended December 31, 2020, when compared to the prior periods. The decrease was primarily due to lower income before taxes.

#### Undepreciated Capital Cost Allowance

The Company has intangible assets related to the SGRS Rights, ML Rights, AIR MILES® Rights, MRM Rights and Oxford Rights, which have an undepreciated capital cost allowance of approximately \$211.5 million at December 31, 2020. In addition, pursuant to NND Royalties LP's limited partnership agreement, its undepreciated capital cost allowance of approximately \$49.0 million at December 31, 2020 is allocated to the Company for tax purposes.

## SELECTED ANNUAL INFORMATION

	2020	2019	2018
Revenue	\$ 30,496	\$ 30,463	\$ 26,709
Net (loss) income	(8,885)	14,044	10,120
Total assets	358,396	345,266	318,223
Total non-current financial liabilities	158,236	141,999	116,933
Basic (loss) earnings per share	\$ (0.07)	\$ 0.13	\$ 0.09
Diluted (loss) earnings per share	(0.07)	0.13	0.09
Dividends declared per share	0.21	0.22	0.22

The increase in revenues from 2018 to 2019 was primarily driven by: (i) the acquisition of the MRM Rights in May 2019; (ii) the addition of four locations to the Mr. Lube Royalty Pool in May 2019; (iii) the increase in the Mr. Lube Royalty Rate and the net addition of one store to the Mr. Lube Royalty Pool in May 2018; (iv) positive SSSG at Mr. Lube; and (v) the annual contractual 2.0% increase in the Sutton Royalty Rate, effective as of July 1<sup>st</sup> of each year.

The decrease in revenues from 2019 to 2020 was due to the impact of the COVID-19 pandemic, which included negative SSSG at Mr. Lube, lower royalty income from the AIR MILES® Licenses and the royalty and management fee relief granted to Mr. Mikes and Sutton. The decrease was partially offset by incremental revenues related to the acquisition of the Oxford Rights in February 2020, the acquisition of the MRM Rights in May 2019 and the addition of four locations to the Mr. Lube Royalty Pool in May 2019.

Net income (loss), basic earnings (loss) per share and diluted earnings (loss) per share reflect the trend in revenues, offset by fluctuations associated with the impairment of the MRM Rights and the OX Rights (see "Results of Operation – Impairment Loss"), litigation, fair value adjustments (including with respect to DIV's investment in NND Royalties LP, interest rate swaps and exchangeable partnership units) and income tax expense.

The increase in total assets from 2018 to 2019 was primarily due to: (i) the additions to intangible assets related to the acquisition of the MRM Rights in May 2019; (ii) the addition to intangible assets related to the four locations added to the Mr. Lube Royalty Pool in May 2019; and (iii) the investment in NND Royalties LP. These increases were partially offset by cash deployed on these transactions.

The increase in total assets from 2019 to 2020 was primarily due to the acquisition of the OX Rights in February 2020, largely offset by the impairment loss related to the MRM Rights and OX Rights, as well as the decrease in fair value related to the investment in NND Royalties LP.

The non-current financial liabilities increased from 2018 to 2019 primarily due to: (i) MRM LP's \$10.3 million term loan facility obtained in connection with the acquisition of the MRM Rights; (ii) NND Holdings LP's \$14.5 million term loan facility (of which \$7.5 million was drawn as of December 31, 2019) in connection with the acquisition of the NND Rights; and (iii) the promissory note issued to Mr. Mikes as partial consideration for the MRM Rights acquisition.

The non-current financial liabilities increased from 2019 to 2020 primarily due to: (i) the drawdown of the remaining \$7.0 million balance under NND Holdings LP's term loan facility; (ii) OX LP's \$9.0 million term loan facility obtained in connection with the acquisition of the OX Rights; and (iii) the increase in the fair value of the interest rate swap liabilities.

## 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 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019	Q2 2019	Q1 2019
Revenue	\$ 8,915	\$ 8,023	\$ 6,294	\$ 7,264	\$ 8,408	\$ 8,103	\$ 7,549	\$ 6,403
Net income (loss)	\$ 847	\$ (882)	\$ 2,881	\$ (11,731)	\$ 4,189	\$ 3,936	\$ 3,435	\$ 2,484
Earnings (Loss) per common share								
Basic	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.10)	\$ 0.04	\$ 0.04	\$ 0.03	\$ 0.02
Diluted	\$ 0.01	\$ (0.01)	\$ 0.02	\$ (0.10)	\$ 0.04	\$ 0.04	\$ 0.03	\$ 0.02

## Revenue

In the third quarter and fourth quarter of 2020, the Company's Royalty Partners started experiencing encouraging trends in their businesses as various governments eased certain restrictions put in place to fight the COVID-19 pandemic. Overall, DIV's Royalty Partners contributed higher royalty income in the third quarter and fourth quarter of 2020 compared to the second quarter of 2020. However, due to a growing number of COVID-19 cases in recent months, certain governments have re-imposed certain restrictions and added new restrictions to fight the COVID-19 pandemic, which started to negatively impact the performance of DIV's royalty partners in the second half of Q4 2020 (see "Royalty Pools" above).

The second quarter of 2020 reflects the impact of the COVID-19 pandemic, which resulted in negative SSSG for Mr. Lube, lower royalty income from the AIR MILES® Licences, the waiver of 100% of the Mr. Mikes' royalty and management fees payable in the quarter and the waiver of 75% of Sutton's April and May 2020 royalty and management fees. This was partially offset by incremental revenue contribution from Oxford.

The first quarter of each year is impacted by seasonality in both AIR MILES® and Mr. Lube, as both businesses typically see lower sales in the first quarter of the year. The first quarter of 2020 reflects the incremental revenue contribution from Oxford largely offset by the impact of the COVID-19 pandemic. The COVID-19 pandemic resulted in negative SSSG for Mr. Lube, the waiver of 100% of the Mr. Mikes' royalty and management fees for the period from February 24 to March 31, 2020 and the waiver of 50% of Sutton's March 2020 royalty and management fees.

On May 1, 2019, Mr. Lube added four new locations to the Mr. Lube Royalty Pool. On May 20, 2019, the Company acquired the MRM Rights. These additions resulted in an increase in revenues during the second quarter of 2019 and subsequent quarters.

### **Net Income (Loss)**

Net income (loss) reflects the trend in quarterly revenue, offset by fluctuations associated with the impairment of the MRM Rights and OX Rights (see "Results of Operation – Impairment of Intangible Asset"), litigation, fair value adjustments (including with respect to DIV's investment in NND Royalties LP, interest rate swaps and exchangeable partnership units) and income tax expense.

### **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 of the Company 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, amounts receivable and investment in NND Royalties LP. 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 and the investment in NND Royalties LP is monitored through regular review of the Company's Royalty Partners.

DIV's Royalty Partners have had, and continue to have, significant interruptions to their respective businesses. In response to the financial difficulty that Mr. Mikes and Sutton experienced, DIV granted certain royalty and management fee relief to each of Mr. Mikes and Sutton during the year ended December 31, 2020 (see "Royalty Pools"). The impact of COVID-19 continues to evolve, and management, in consultation with the Board, continues to monitor developments and the impact on DIV and its Royalty Partners' businesses. As at December 31, 2020, DIV's Royalty Partners had minimal to no senior debt on their balance sheets and have minimal capital expenditure obligations. However, improvement trends that were experienced by certain of DIV's royalty partners in the summer and fall of 2020 have started to regress as certain governments have re-imposed certain restrictions and added new restrictions to fight the COVID-19 pandemic (see "Royalty Pools" above).

#### **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 monitors its consolidated cash flow to ensure that there is sufficient liquidity to meet liabilities when due. In addition, the Company manages its liquidity risk by preparing rolling cash flow forecasts, taking into consideration various scenarios and assumptions, monitoring the business operations of its Royalty Partners, and monitoring compliance with the terms of financing arrangements. Given the economic uncertainty facing DIV and its Royalty Partners as a result of the COVID-19 pandemic, the Company decreased the monthly dividend from \$0.01958 per share to \$0.01667 per share effective with dividend declared in the month of April 2020.

As at December 31, 2020, the Company had a cash and cash equivalents balance of \$9.2 million (December 31, 2019 - \$3.0 million) and working capital of \$10.2 million (December 31, 2019 - working capital of \$9.3 million).

As at December 31, 2020, 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	2021	2022	2023	2024	Thereafter
Accounts payable and accrued liabilities	\$ 1,710	\$ 1,710	\$ 1,710	\$ -	\$ -	\$ -	\$ -
Promissory note	3,108	4,952	-	-	-	-	4,952
Long-term bank loans <sup>1</sup>	98,557	107,580	3,736	67,970	1,130	25,659	9,085
Convertible debentures	54,535	63,538	3,019	60,519	-	-	-
<b>Total contractual obligations</b>	<b>\$ 157,910</b>	<b>\$ 177,780</b>	<b>\$ 8,465</b>	<b>\$ 128,489</b>	<b>\$ 1,130</b>	<b>\$ 25,659</b>	<b>\$ 14,037</b>

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.

As at December 31, 2020, the Company was in compliance with all financial covenants associated with its Acquisition Facility and other credit facilities. The Company negotiated a covenant amendment to the MRM LP credit facility, which includes a suspension to its financial covenants for the quarter ended December 31, 2020. If MRM LP did not enter into a covenant amendment for the quarter ended December 31, 2020, MRM LP would have been in breach of its financial covenants. DIV is in regular discussions with its lending partners about the impact of COVID-19 on its business including covenant relief, which may be required in the months ahead.

In December 2020, DIV signed a ten-year lease agreement for its head office and obtained possession in January 2021. The lease will be treated as a finance lease under IFRS Leases ("IFRS 16"). Under IFRS 16, DIV will 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.

### 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, 2020, the Company was exposed to currency risk arising from cash denominated in U.S. dollars. As at December 31, 2020, cash denominated in U.S. dollars was less than US\$0.1 million.

### Interest rate 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 has long-term bank loans that are subject to floating interest rates. The interest rate risk related to long-term bank loans is mitigated by interest rate swap arrangements that fix the interest rates on \$78.9 million of the Company's \$99.1 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, 2020, the Company recorded a \$2.0 million loss related to the interest rate swaps.

The investment in NND Royalties LP is a financial asset measured at fair value. The valuation of this financial asset includes an estimate of the discounted cash flow receivable from Nurse Next Door and takes into consideration the likelihood of Nurse Next Door exercising the NND Buy-Out Option and the NND Exchange Mechanism (defined below). The NND Buy-Out Option and NND Exchange Mechanism are embedded derivatives with a negligible value at December 31, 2020. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.0% (December 31, 2019 – 11.9%). Although the cash flows are fixed and contractual, the fair value of the investment in NND Royalties LP will fluctuate because of changes in interest rates. As at December 31, 2020, the investment in NND Royalties LP was valued at \$43.6 million and a fair value decrease of \$3.6 million was recorded during the year ended December 31, 2020.

## CASH FLOWS

(000's)	Year ended December 31,	
	2020	2019
Cash from operating activities	\$ 22,102	\$ 22,959
Cash from (used in) financing activities	28,469	(6,078)
Cash used in investing activities	(44,321)	(92,255)
Increase (decrease) in cash	6,250	(75,374)
Cash, beginning of year	2,968	78,342
Cash, end of year	\$ 9,218	\$ 2,968

### *Cash From Operating Activities*

Cash from operating activities for the year ended December 31, 2020 decreased by \$0.9 million compared to the prior period. The decrease was primarily due to taxes paid and fluctuations in working capital, partially offset by the increase in adjusted revenues.

### *Cash From (Used In) Financing Activities*

Cash from financing activities for the year ended December 31, 2020 was related to proceeds from the public offering of common shares (see "Common Shares"), the issuance of debt and the receipt of a related party receivable from NND Royalties LP, which received the GST refund related to the NND Rights transaction in March 2020. These items were partially offset by the repayment of debt, dividends paid net of DRIP, equity issuance costs and debt financing costs.

Cash used in financing activities for the year ended December 31, 2019 was related to dividends paid net of DRIP and debt financing costs, partially offset by proceeds from the issuance of debt.

### *Cash Used in Investing Activities*

Cash used in investing activities for the year ended December 31, 2020 was related to the acquisition of the Oxford Rights.

Cash used in investing activities for the year ended December 31, 2019 was related to the acquisition of the MRM Rights, the addition of four Mr. Lube locations to the Mr. Lube Royalty Pool, and the investment in NND Royalties LP.

## CAPITAL RESOURCES

The Company's capital includes shareholders' equity, the Company's acquisition facility, long-term debt and the Convertible Debentures, net of cash and cash equivalents. In managing its capital, the Company may issue new common shares, issue warrants, issue new debt, draw on its operating line of credit, purchase common shares for cancellation pursuant to normal course issuer bids, temporarily suspend the DRIP, reduce the monthly dividend or reduce debt.

### **Long-Term Debt**

As at December 31, 2020, the Company's subsidiaries had term loan facilities with a total drawn amount of \$99.1 million. These term loan facilities have floating interest rates equal to the Bankers' Acceptance Rate plus a credit spread ranging from 1.90% to 2.25%. The Company has interest rate swap arrangements that fix the interest rates on \$78.9 million of the Company's \$99.1 million floating rate term loan facilities with interest rates ranging from 2.96% to 4.64%.

The Company's subsidiaries also have operating lines of credit with a total value of \$5.5 million that were undrawn at December 31, 2020 and March 11, 2021.

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.

### **Convertible Debentures**

DIV has convertible unsecured subordinated debentures with an aggregate principal amount of \$57.5 million (the "Convertible Debentures"). The Convertible Debentures mature on December 31, 2022 and bear interest at 5.25% per annum, payable on June 30<sup>th</sup> and December 31<sup>st</sup> of each year. As at December 31, 2020 and March 11, 2021, there was \$57.5 million aggregate principal amount of Convertible Debentures issued and outstanding, which are convertible by their terms for an aggregate of 12,637,362 common shares at a conversion price of \$4.55 per share as of such date.

## Acquisition Facility

DIV has a \$50.0 million senior secured credit facility (the "Acquisition Facility") with a Canadian chartered bank that matures on November 30, 2022. The Acquisition Facility has a term of three years, and each draw is interest only for the first six months and then amortizes over sixty months. The Acquisition Facility is subject to a customary annual standby fee, and draws under the facility are subject to prevailing market interest rates at the time of the draw. The Acquisition Facility is secured by a general security interest over the assets of the Company and, if requested by the lender, may be secured by specific assignments of certain material agreements entered into by the Company from time to time.

As at December 31, 2020 and March 11, 2021, the Acquisition Facility was undrawn.

## Common Shares

On March 5, 2020, the Company completed a bought-deal public offering of 10,810,000 of common shares (the "Offering"), including 1,410,000 common shares issued pursuant to the full exercise of the over-allotment option, at a price of \$3.20 per share, for gross proceeds of approximately \$34.6 million. On March 10, 2020, the Company used approximately \$30.7 million of the net proceeds from the Offering to repay approximately \$30.7 million of the amount outstanding under the Acquisition Facility.

The table below compares the estimated and actual use of proceeds from the Offering for the specific uses identified in the final prospectus. DIV elected to apply a greater portion of the proceeds from the Offering to pay down the Acquisition Facility due to a delay in completing the OX Credit Facility.

Item	Estimated Use of Proceeds (\$000s)	Actual Use of Proceeds (\$000s)	Variance (\$000)
Equity proceeds to repay outstanding amounts under the Acquisition Facility	\$ 28,700	\$ 30,700	\$ (2,000)
Equity issuance costs	2,130	2,129	1
Equity proceeds to fund working capital	3,762	1,763	1,999
Total gross proceeds	\$ 34,592	\$ 34,592	\$ -

As at March 11, 2021, there were 121,424,083 common shares issued and outstanding.

## Share Options

As at March 11, 2021, there were 2,300,000 options outstanding, which may be exercised to purchase an equivalent number of common shares at exercise prices ranging between \$3.22 per share to \$3.53 per share.

## Restricted Share Units

As at March 11, 2021, there were 470,990 RSUs outstanding, which may be settled for an equivalent number of common shares upon vesting.

## DIVIDENDS TO SHAREHOLDERS

The Company currently has a dividend policy providing for the payment of a monthly dividend, subject to the approval of the Board of Directors of the Company.

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. In addition, the Company is prohibited from paying dividends or making other distributions to its shareholders pursuant to the terms of the Acquisition Facility agreement if the Company is not in compliance with certain financial covenants set forth therein. The Company monitors the financial covenants under its and its subsidiaries' credit facilities closely in order to ensure compliance therewith prior to the payment of any distributions by its subsidiaries to the Company and the payment of any dividends by the Company to its shareholders.

The Company's dividends are deemed eligible dividends for Canadian tax purposes. Dividends declared in 2020 and 2019 are as follows:

<b>2020</b>	<b>Payment date</b>	<b>Dividend / share</b>	<b>2019</b>	<b>Payment date</b>	<b>Dividend / share</b>
December 2020	December 31, 2020	\$ 0.01667	December 2019	December 31, 2019	\$ 0.01917
November 2020	November 30, 2020	\$ 0.01667	November 2019	November 29, 2019	\$ 0.01854
October 2020	October 30, 2020	\$ 0.01667	October 2019	October 31, 2019	\$ 0.01854
September 2020	September 30, 2020	\$ 0.01667	September 2019	September 30, 2019	\$ 0.01854
August 2020	August 31, 2020	\$ 0.01667	August 2019	August 30, 2019	\$ 0.01854
July 2020	July 31, 2020	\$ 0.01667	July 2019	July 31, 2019	\$ 0.01854
June 2020	June 30, 2020	\$ 0.01667	June 2019	June 28, 2019	\$ 0.01854
May 2020	May 29, 2020	\$ 0.01667	May 2019	May 31, 2019	\$ 0.01854
April 2020	April 30, 2020	\$ 0.01667	April 2019	April 30, 2019	\$ 0.01854
March 2020	March 31, 2020	\$ 0.01958	March 2019	March 29, 2019	\$ 0.01854
February 2020	February 28, 2020	\$ 0.01917	February 2019	February 28, 2019	\$ 0.01854
January 2020	January 31, 2020	\$ 0.01917	January 2019	January 31, 2019	\$ 0.01854

On December 1, 2019, the amount payable under Company's annual dividend policy was increased from \$0.2225 per share to \$0.23 per share, in connection with the acquisition of the NND Rights. On March 1, 2020, the amount payable under Company's annual dividend policy was increased from \$0.23 per share to \$0.235 per share, in connection with the acquisition of the Oxford Rights. As announced on March 31, 2020, given the economic uncertainty facing DIV and its Royalty Partners as a result of the COVID-19 pandemic, the Board of Directors of the Company approved changing the monthly dividend from \$0.01958 per share (\$0.235 per share on an annualized basis) to \$0.01667 per share (\$0.20 per share on an annualized basis) effective with the dividend declared in the month of April 2020.

#### **Dividend Reinvestment Plan**

When active, the DRIP allows eligible holders of the Company's common shares to reinvest some or all 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.

As announced on March 31, 2020, starting with the April 2020 monthly dividend, the Board approved the temporary suspension of the DRIP. During the three months ended March 31, 2020, there were 465,780 common shares issued under the DRIP.

On January 6, 2021, effective with the January 2021 monthly dividend, the Board approved the reinstatement of the DRIP.

#### **TRANSACTIONS WITH RELATED PARTIES**

In addition to information disclosed elsewhere in this MD&A, the Company had the following related party transactions during the year ended December 31, 2020. 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 office space and administrative services to the Company for a fee of approximately \$0.1 million per annum.

## Key Management Compensation

Key management personnel of the Company includes Members of the Board of Directors, the President and CEO, and CFO. The table below summarizes the compensation of key management personnel included in net income.

	2020	2019
Short-term benefits	\$ 1,269	\$ 1,545
Share-based compensation	1,326	1,476
	\$ 2,595	\$ 3,021

## Related Party Receivable

As at December 31, 2019, DIV had a promissory note receivable of \$3.8 million from NND Royalties LP, which was repaid during the year ended December 31, 2020, upon NND Royalties LP's receipt of the GST refund from the CRA.

## SIGNIFICANT ACCOUNTING POLICIES

The Company's 2020 Financial Statements were prepared in accordance with IFRS. The Company's significant accounting policies are described in note 3 of the Company's 2020 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, 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 SGRS LP, ML LP, MRM LP, NND Royalties LP and OX 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 SGRS LP, ML LP, MRM LP and OX LP through its majority ownership of the respective general partners.

Although DIV has 99% ownership over the general partner of NND Royalties LP, management has determined that the definition of control pursuant to IFRS 10 is not met with respect to NND Royalties LP as DIV does not have the ability to direct the activities that most significantly affect the returns of NND Royalties LP for the reasons stated below.

#### *Control of NND Rights*

In determining whether the Company controls an asset, the Company takes into consideration the control model in IFRS 15, *Revenues* ("IFRS 15"), and if there is an agreement to repurchase the asset. If an entity has a right to repurchase the asset, the buyer does not obtain control of the asset because the buyer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the assets even though the buyer may have physical possession of the asset.

Nurse Next Door has the ability to repurchase the NND Rights from NND Royalties LP at any time after November 15, 2026 pursuant to the NND Buy-Out Option. Due to the NND Buy-Out Option, in accordance with IFRS 15, NND Royalties LP does not have control over the NND Rights and the Company cannot recognize the NND Rights as an intangible asset on its consolidated statement of financial position. Instead, the transaction is accounted for as a financing arrangement.

#### *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. The Company has determined that the transactions related to the SGRS Rights, ML Rights, AM Rights, MRM Rights and Oxford Rights were asset acquisitions and the acquisition-related costs were capitalized to the intangible asset.

### *Fair Value of Exchangeable Partnership Units in SGRS LP and OX LP (“Exchangeable Partnership Units”)*

The Company does not assign any value to the Exchangeable Partnership Units if they do not currently meet the relevant criteria for exchange into common shares of DIV (see note 8 in the Company’s 2020 Financial Statements for further information).

## **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, which is dependent on a number of different assumptions that requires management to exercise judgment, to determine if impairment exists. These assumptions include the projected sales underlying the royalty payment, as well as the pre-tax discount rate used to determine the value-in-use. As a result, the estimated cash flows the intangible assets are expected to generate could differ materially from actual results. The significant estimates and assumptions used in the impairment tests are disclosed in the 2020 Financial Statements.

### *Valuation of the Investment in NND Royalties LP*

The Company’s investment in NND Royalties LP is a financial instrument recorded at fair value. The valuation of NND Royalties LP includes an estimate of the discounted cash flows receivable from Nurse Next Door and takes into consideration a number of different variables that requires management to exercise judgment. These judgments include the discount rate used to calculate the fair value of the contractual cash flows receivable, the likelihood of Nurse Next Door exercising the NND Buy-Out Option and the likelihood of Nurse Next Door exercising its right to exchange NND Royalties LP Class B units for common shares of DIV, subject to meeting certain criteria (the “NND Exchange Mechanism”). As a result, the estimated cash flows that the investment in NND Royalties LP are expected to generate could differ materially from actual results.

## **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 and the performance of its Royalty Partners. 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 and its Royalty Partners 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, “DIV Royalty Entitlement”, “adjusted royalty income”, “adjusted revenue”, “EBITDA”, “normalized EBITDA”, “distributable cash”, “same store sales growth” or “SSSG” and “payout ratio” are used as non-IFRS measures in this MD&A.

### *DIV Royalty Entitlement, Adjusted Royalty Income and Adjusted Revenue*

DIV Royalty Entitlement, adjusted royalty income and adjusted revenue are reported to allow readers to assess the performance of DIV’s royalty arrangement with Nurse Next Door on a basis consistent with the royalties received from DIV’s other Royalty Partners. Under IFRS, DIV is required to record its investment in NND Royalties LP as a financial instrument and the income earned from this investment as finance income, which does not allow for a direct comparison of the income received from this investment to the royalties received from DIV’s other Royalty Partners, which attract different treatment under IFRS. Adjusted royalty income is calculated as royalty income, plus the DIV Royalty Entitlement received by NND Royalties LP from Nurse Next Door. Adjusted revenue is calculated as adjusted royalty income plus management fees. The table under the section “Royalty Pools” provides a reconciliation of royalty income to adjusted royalty income and adjusted revenue.

### *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 (including the existing impairment with respect to the MRM Rights and OX Rights), other finance income (costs), and the fair value adjustment on financial instruments, but including the DIV Royalty Entitlement net of expenses related to NND Royalties LP. While EBITDA and normalized EBITDA are not recognized measures under IFRS, management of the Company believes that, in addition to net income, EBITDA and normalized EBITDA are useful supplemental measures as they provide investors with an indication of cash available for distribution prior to debt service needs, litigation expenditures and interest income, as applicable. The methodologies used by the Company to determine EBITDA and normalized EBITDA may differ from those utilized by other issuers or companies and, accordingly, EBITDA and 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 EBITDA and 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 these non-IFRS financial measures to net income.

#### *Distributable Cash*

Distributable cash is defined as Normalized EBITDA less interest expense on the credit facilities, less distributions on MRM Units held by Mr. Mikes, less current income tax expense, 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 dividends on its common shares during the applicable period. Readers should be cautioned, however, that distributable cash should not be construed as an alternative to the statement of cash flows as a measure of liquidity and cash flows of the Company. The Company's method of calculating distributable cash may differ from that of other issuers and companies and, accordingly, distributable cash may not be comparable to similar measures used by other issuers or companies. 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.

#### *Same Store Sales Growth or SSSG*

Same store sales growth or SSSG is the percentage increase in store sales over the prior comparable period for locations that are included in the Mr. Lube Royalty Pool, the Oxford Royalty Pool, or Mr. Mikes Royalty Pool, as applicable, and 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 included in the Mr. Lube Royalty Pool, Oxford locations in the Oxford Royalty Pool and Mr. Mikes Restaurants in the Mr. Mikes Royalty Pool, as applicable. 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 as dividends, 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 2020 Financial Statements include certain additional IFRS measures where management considers such information to be useful to understanding the Company's financial results.

#### **RISK FACTORS**

On March 11, 2020, the World Health Organization expanded its classification of COVID-19 to a worldwide pandemic. In response, federal, state, provincial and municipal governments and health authorities in North America legislated numerous measures to combat the spread of COVID-19. DIV and its Royalty Partners (including their respective franchisees) have, and are expected to continue to, experience material short/medium term negative impacts from the COVID-19 outbreak; however, the full extent of such future impacts is currently unquantifiable. Such impacts include, without limitation, reduced willingness of the general population to travel, government restrictions on travel and hours and manner of store operations (including, among other things, required closures in certain jurisdictions, maximum customer capacities, physical distancing requirements and increased sanitation requirements) and other increased government regulations, reduced customer traffic and sales, supply shortages, staff shortages, all of which may, and in certain cases have and may continue to, negatively impact the business, financial condition and results of operations of DIV and its Royalty Partners (including their respective franchisees) and thus the ability of the Royalty Partners to satisfy their financial obligations including their obligations to make royalty and other payments to DIV, which in turn may adversely impact DIV's ability to satisfy its financial obligations to its lenders and trade creditors and its ability to pay dividends to shareholders and make interest and principal payments to holders of the Convertible Debentures, and may cause DIV and its Royalty Partners to be in non-compliance with one or more of their covenants under their respective credit facilities. Further discussion with respect to the impacts of COVID-19 on DIV and its Royalty Partners is included throughout this MD&A, including under "COVID-19" above.

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 11, 2021, a copy of which is available on SEDAR at [www.sedar.com](http://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 Convertible Debentures. In that event, the value of DIV's common shares, Convertible 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, 2020.

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, 2020. No changes were made in the Company's design of ICFR during the three and twelve months ended December 31, 2020, 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" or "financial outlook" 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 or financial outlook. Forward-looking information and financial outlook are 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 the forward-looking information and financial outlook contained herein on DIV's current expectations about future events. Some of the specific forward-looking information and financial outlook in this MD&A includes, but is not limited to, statements with respect to: DIV's objective to purchase additional stable and growing royalty streams from growing multi-location businesses and franchisors; DIV's objective to increase distributable cash per share by making accretive royalty purchases; DIV's Royalty Partners (including their respective franchisees) are expected to continue to have significant interruptions to their respective businesses in the months ahead; DIV does not know the full extent of the financial impact of such interruptions going forward, what the timeline will be for restoring normal operations for its Royalty Partners (including their respective franchisees), or the potential changes in consumer behaviours as a result of the COVID-19 pandemic; previously experienced improvement trends by certain of DIV's Royalty Partners (including their respective franchisees) may not continue and may regress; governments may continue to



re-impose previously eased restrictions and add new restrictions to combat the spread of COVID-19; remaining government support programs that have been helpful to DIV's Royalty Partners, their respective franchisees and the general population may be modified or terminated at any time; if such programs were terminated, or if the amounts available such programs were reduced, then Royalty Partners and franchisees currently receiving support under those programs may need to find alternative sources of financial support and may make requests for such support from, among other parties, DIV and its Royalty Partners, as applicable; the risk that certain Royalty Partner franchise locations that are currently temporarily closed may not reopen, and those that are open may be forced to close again in the future; the ongoing effects of COVID-19 could impact DIV's and its Royalty Partners' (as well as their respective franchisees') ability to obtain debt and equity financing, and result in an impairment in the value of long-lived assets, or decreases in revenue or the profitability of ongoing operations; the rates of recovery for DIV's Royalty Partners will be dependent upon, among other things, the availability and effectiveness of vaccines for the COVID-19 virus, government responses, rates of economic recovery, precautionary measures taken by consumers and the rate at which social restrictions will be lifted; the deferment of payment of the remaining consideration owing to Mr. Lube in respect of the addition of four new locations to the Mr. Lube Royalty Pool on May 1, 2019, to no earlier than May 1, 2021; Mr. Lube management's belief that the broader impact of the COVID-19 pandemic on future operations and financial performance remains uncertain; the terms and details of the increase to the Mr. Lube Royalty Rate and addition of the 13 Mr. Lube locations to the Mr. Lube royalty pool, including the estimated consideration payable by DIV to Mr. Lube and the expected timing thereof under the LP Amendment; DIV's belief that the transactions contemplated under the LP Amendment will be over 1 cent accretive to distributable cash per share thereby further improving DIV's payout ratio; DIV's expectation that it will use a combination of cash on hand and incremental debt in ML Royalties Limited Partnership to fund the transactions contemplated under the LP Amendment; LoyaltyOne continuing to pivot the AIR MILES® reward portfolio to emphasize more non-travel options; DIV continuing to assess the impact of COVID-19 on Sutton's business to determine if any further royalty relief is necessary; new regulations imposed in respect of the operation of the Mr. Mikes restaurants may be prohibitive, and customers may be discouraged with long wait times if dining rooms operate at reduced capacity and staff must undertake extensive cleaning procedures in between customers; Mr. Mikes' expectation that it will continue to experience a slow recovery as a result of government restrictions on operations; DIV expecting that Mr. Mikes will require additional royalty and management fee relief going forward; Mr. Mikes is currently experiencing constrained cash flows and has advised DIV that they will likely be unable to pay its fixed royalty payments to DIV in full; DIV's expectation that COVID-19 will continue to have a negative impact on Mr. Mikes' operations; Nurse Next Door's expectation that it will focus its business development efforts in California, where it intends to sell approximately 50 new franchises following the expiry of the 12-month restricted period ending August 2021; Nurse Next Door's expectation that these new franchises, once sold, will be subject to Nurse Next Door's standard franchise fees and other charges, which are higher than the rates previously paid by St. Joseph under the master licence agreement and will achieve higher sales volumes than the St. Joseph's franchises; DIV's expectation that the termination of the St. Joseph's contract and the terminations of certain franchisees, may cause Nurse Next Door to temporarily generate less than full royalty coverage in the short term; Nurse Next Door continuing to pursue additional legal remedies against certain of its franchisees; the expectation that the initial franchise fees generated from the sale of new territories along with incremental franchise revenue from these new operations are expected to enhance Nurse Next Door's profitability and provide improved royalty coverage; DIV's expectation that Nurse Next Door will continue to make its royalty payments in full; in the short term, DIV expects COVID-19 to continue to have a negative impact on the Oxford business, including some softness in Q1 2021; management, in consultation with the Board, continues to monitor developments and the impact on DIV and its Royalty Partners' (including their respective franchisees') businesses; DIV being in regular discussions with its lending partners about the impact of COVID-19 on its business, including covenant relief which may be required in the months ahead; DIV's intention to pay regular monthly cash dividends to shareholders; the Company's Board of Directors reviewing the Company's dividend on an ongoing basis and the possibility that the DIV Board of Directors may amend the dividend policy at any time; when the DRIP is in place, DIV may, from time to time, change or eliminate the discount applicable to common shares issued from treasury under the DRIP; DIV's intention to acquire future royalty streams in separate legal entities without cross-collateralization; 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 DIV's Royalty Partners to DIV; the expectation that the cash flows included in the maturity analysis in the table under the heading "Liquidity Risk" would not occur significantly earlier than as presented or in significantly different amounts than as presented; and DIV may in managing its capital to issue new common shares, issue new debt, adjust the amount of dividends paid to its shareholders or pursue a normal course issuer bid.

Forward-looking information and financial outlook 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, Mr. Lube, Mr. Mikes, Nurse Next Door and Oxford and adjustments thereto; the payment of royalties from LoyaltyOne; the ability to acquire and effect of additional royalties; the business strategy, growth opportunities, budgets, projected costs, goals, plans and objectives of the Company, Sutton, Mr. Lube, LoyaltyOne, Mr. Mikes, Nurse Next Door and Oxford; COVID-19 will have a material impact on DIV's Royalty Partners (including their respective franchisees) in the short to medium term; the impact of the termination by St. Joseph of its master licence agreement on Nurse Next Door's business will be consistent with DIV's current expectations; Nurse Next Door will be successful in selling new franchises in the territories covered by the St. Joseph master licence agreement and those territories covered by the franchisees that have purported to terminate, or terminated, their franchise agreements, which sales will be completed in accordance with Nurse Next Door's currently estimated timing, and such locations will achieve Nurse Next Door's financial targets and have a positive financial impact on Nurse Next Door; Nurse Next Door will continue to make its royalty payments to DIV in full and will not request royalty relief in relation to such events; DIV will generate

sufficient cash flows from its royalties to service its debt and pay dividends to shareholders; lenders will provide any necessary waivers required in order to allow DIV to continue to pay dividends; lenders will provide any necessary covenant waivers to DIV and its Royalty Partners; the impacts of COVID-19 on DIV and its Royalty Partners (including their respective franchisees) will be consistent with DIV's expectations and the expectations of management of each of its Royalty Partners, both in extent and duration; DIV and its Royalty Partners (including their respective franchisees) will be able to reasonably manage the impacts of the COVID-19 pandemic and related government regulations on their respective businesses; vaccination programs will be successful and vaccines effective, and the expected positive impacts thereof on DIV and the businesses of its Royalty Partners (including their respective franchisees) will be consistent with DIV's expectations; vaccination programs will be successful and vaccines effective, and the expected positive impacts thereof on DIV and the businesses of its Royalty Partners (including their respective franchisees) will be consistent with DIV's expectations; the transactions contemplated under the LP Amendment will be completed on the terms and in accordance with currently expected timing; and DIV will be able to obtain debt financing for such transactions on reasonable terms; 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 dividends; 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 and financial outlook contained in this MD&A are 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 or outlook. Undue reliance should not be placed on the forward-looking information and financial outlook contained herein since no assurance can be given that it will prove to be correct.

Forward-looking information and financial outlook 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 and financial outlook including, without limitation: the Company's high dependency on the operations of Sutton, Mr. Lube, LoyaltyOne, Mr. Mikes, Nurse Next Door and Oxford; prevailing yields on similar securities; the Company's reliance on key personnel; dividends are not guaranteed and will fluctuate with business performance of DIV and its Royalty Partners (including their respective franchisees) and may be reduced or suspended at any time; the unpredictability and volatility of prices of the Company's common shares and convertible debentures; leverage and restrictive covenants; current economic conditions; failure to access financing; credit facilities risk; the financial health of Sutton, Mr. Lube, LoyaltyOne, Mr. Mikes, Nurse Next Door and Oxford cash flows; DIV and its Royalty Partners (including their respective franchisees) may continue to be adversely impacted directly, or indirectly by economic or socioeconomic conditions related to COVID-19 (see "Risk Factors" and "COVID-19" above); DIV's Royalty Partners may request further royalty relief; COVID-19 may have a more significant negative impact on DIV and its Royalty Partners (including their respective franchisees) than currently expected and the businesses of DIV's Royalty Partners (including their respective franchisees) may not fully recover post COVID-19; recently re-imposed and additional government restrictions related to COVID-19 may continue to negatively impact DIV and its Royalty Partners (including their respective franchisees); recent improvement trends experienced by certain of DIV's Royalty Partners (including their respective franchisees) may not continue and may regress or continue to regress; the rates of recovery for DIV's Royalty Partners will be dependent upon, among other things, the availability and effectiveness of vaccines for the COVID-19 virus, government responses, rates of economic recovery, precautionary measures taken by consumers and the rate at which social restrictions will be lifted; recently re-opened Royalty Partner locations may be required to temporarily close in the future; Royalty Partner locations that are temporarily closed may not reopen; franchisee support provided by DIV's Royalty Partners to their respective franchisees may be reduced or terminated at any time, which may negatively impact the franchisees and the royalties payable to DIV; DIV's lenders may not agree to provide, or continue to provide, as applicable, covenant relief, at all or only on terms that are disadvantageous to DIV; the Royalty Partners' respective lenders may not agree to provide, or continue to provide, as applicable, covenant relief, at all or only on terms that are disadvantageous to the Royalty Partners; Mr. Mikes may not make its fixed royalty payments to DIV, in whole or in part, while it is generating minimal revenue; Mr. Lube may become liable for the lease obligations of certain of its franchisees, if such franchisees default on their leases, and such obligations may be significant and Mr. Lube may be unsuccessful in seeking recovery from such franchisees, all of which may adversely affect Mr. Lube's investments, results of operations and financial condition; LoyaltyOne may not be successful in continuing to renew sponsor contracts, and such contracts, if renewed, may be renewed on less advantageous terms than existing contracts; the impact of the termination by St. Joseph of the master licence agreement on Nurse Next Door's business could be greater than expected; Nurse Next Door may not be successful in selling new franchises in the territories currently covered by the St. Joseph master licence agreement or those territories covered by the franchisees that have recently terminated or purported to terminate their franchise agreements, or may be delayed in completing such sales or may not complete such sales on terms currently contemplated; Nurse Next Door may not realize the expected financial benefits of re-selling franchises in such locations; Nurse Next Door may not reach a satisfactory resolution in respect of its remaining claims against franchisees that purported to terminate their respective franchise agreements and may not recover any costs it incurs in pursuing further legal action against the such franchisees, which may be significant; certain of such franchisees may operate competing businesses to the detriment of other Nurse Next Door locations and Nurse Next Door; as a result of the termination by St. Joseph of the master licence agreement and the termination of the franchise agreements by certain other franchisors, Nurse Next Door may experience constrained cash flows and could potentially request some form of royalty relief from DIV in the future, or fail to make all or a portion of its royalty payments and/or draw on its credit facilities in order to fund its royalty payments to DIV; the termination by St. Joseph of the master licence agreement and the termination of the franchise agreements by certain other franchisors has and may, in future periods, result in a further

reduction in the fair value of DIV's investment in NND LP recorded on DIV's consolidated statement of financial position, resulting in a non-cash loss in the period where any such further reduction is recorded; the transactions contemplated under the LP Amendment may not be completed in accordance with currently expected timing, or at all; the actual consideration payable by DIV to Mr. Lube for the transactions contemplated under the LP Amendment has not yet been determined and may be materially different than the amounts currently estimated; the transactions contemplated under the LP Amendment may be less accretive to distributable cash per share than currently estimated, or not at all, and therefore may not improve the payout ratio; DIV may not be successful in obtaining additional debt financing for purposes of completing the transactions contemplated under the LP Amendment, or may only be able to obtain such financing on terms disadvantageous to DIV; failure to realize anticipated benefits of royalty acquisitions; regulatory risk; regulatory filing and licensing requirements; fluctuations in interest rates; competition for royalty acquisition targets; failure to complete further royalty acquisitions or future royalty acquisitions not being accretive; dependence on the business of Sutton, Mr. Lube, LoyaltyOne, Mr. Mikes, Nurse Next Door and Oxford to fund dividends; limitations on future growth and cash flow; sensitivity to general economic conditions and levels of economic activity; financing constraints; and foreign exchange exposure. 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.

To the extent any forward-looking information in this MD&A constitute a "financial outlook" within the meaning of applicable securities laws, such information is being provided to provide investors with an estimate of the financial impact to DIV of the increase to the Mr. Lube Royalty Rate and the addition of 13 Mr. Lube locations to the Mr. Lube Royalty Pool on May 1, 2021.

The forward-looking information and financial outlook contained in this MD&A are expressly qualified in their entirety by this cautionary statement. Forward-looking information and financial outlook reflect management's current beliefs and are based on information currently available to the Company. The forward-looking information and financial outlook are 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 or financial outlook 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.