Management's Discussion and Analysis

For the three and six months ended June 30, 2021

August 12, 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 and six months ended June 30, 2021 should be read in conjunction with the Company's condensed consolidated interim financial statements for the three and six months ended June 30, 2021 (the "Q2 2021 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.

Statements made in this MD&A and in the Q2 2021 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, distributable cash per share, same stores sales growth or SSSG, payout ratio, DIV Royalty Entitlement, DIV Royalty Entitlement net of NND Royalties LP Expenses, 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 condensed consolidated interim financial statements and MD&A of Mr. Lube Canada Limited Partnership ("Mr. Lube") for the three and six months ended June 30, 2021, copies of which are available on SEDAR at 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 three and six months ended June 30, 2021 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 June 30, 2021, Mr. Lube had 177 locations, of which 135 were in the Mr. Lube Royalty Pool. In addition to the royalty, Mr. Lube is required to pay 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 June 30, 2021, there were 5,400 agents in the Sutton Royalty Pool. In addition to the royalty, Sutton is required to pay 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 June 30, 2021, Mr. Mikes had 44 restaurants, of which 38 were in the Mr. Mikes Royalty Pool. In addition to the royalty, Mr. Mikes is required to pay 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 is required to pay the Company a management fee of approximately $0.08 million per year for strategic and other services. 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 June 30, 2021, Oxford had 155 locations, of which 146 were in the Oxford Royalty Pool. In addition, Oxford is required to pay 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

Since the onset of the COVID-19 pandemic in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases and vaccination levels. 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) remains uncertain. Government restrictions, 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, may continue or be re-imposed at any time. These measures 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 may continue to have in the months ahead, significant interruptions to their respective businesses, including prolonged periods of low system sales on which certain royalties are based and low revenues on which the Royalty Partner rely to pay royalties to DIV. Certain governments have eased some of the restrictions put in place to fight the COVID-19 pandemic. However, due to a growing concern over COVID-19 variants in recent months, governments may re-impose certain restrictions, and in some cases have already done so. 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. In addition, the rates of recovery for DIV’s Royalty Partners have and will continue to 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 experienced improvement trends by certain of DIV’s Royalty Partners may not continue and may regress, and in certain cases have regressed when COVID-19 related government restrictions have been re-imposed. Certain government support programs which have been helpful to DIV’s Royalty Partners, their 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 Royalty Partner franchise locations that temporarily close may not reopen, and those that are open may be required to close in the future as a direct or indirect result of the impacts of COVID-19 and related government restrictions. The ongoing effects of COVID-19 could impact DIV 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 the long-lived assets or investments or decreases in revenue or the profitability of DIV’s ongoing operations.

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 ($0.235 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. 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. Positive trends in DIV’s Royalty Partners and the recent accretive incremental royalty purchases from Mr. Lube have resulted in an increase to DIV’s distributable cash. As a result, on July 29, 2021, the Board of Directors approved an increase to DIV’s monthly dividend from $0.01667 per share ($0.20 per share on an annualized basis) to $0.0175 per share ($0.21 per share on an annual basis) effective with the dividend declared in the month of August 2021. 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 June 30, 2021		2020		Six months ended June 30, 2021		2020
Consolidated:								
Revenue[1]	$	9,174	$	6,294	$	16,784	$	13,558
Adjusted revenue[1, 2, 3]		10,401		7,497		19,238		15,964
Royalty income[1]		9,063		6,198		16,562		13,358
Adjusted royalty income[1, 2, 3]		10,290		7,401		19,016		15,764
Normalized EBITDA[3]		9,482		6,767		17,780		14,554
Distributable cash[3]		6,774		4,898		12,660		10,376
Income (loss) from operations[4]		7,845		5,177		14,758		(8,386)
Net income (loss)[4]		5,209		2,881		9,345		(8,850)
Dividends declared		6,089		5,999		12,158		12,571
Basic and diluted earnings (loss) per share[4]	$	0.04	$	0.02	$	0.08	$	(0.08)
Distributable cash per share[3]		0.06		0.04		0.10		0.09
Dividends declared per share		0.05		0.05		0.10		0.11
Total assets[5]	$	372,407	$	371,341	$	372,407	$	371,341
Total non-current financial liabilities[5]		170,183		159,271		170,183		159,271
Adjusted Revenue[3] by Royalty Partner								
Mr. Lube	$	4,753	$	3,570	$	8,383	$	7,087
AIR MILES		1,623		1,529		3,148		3,358
Sutton		1,033		506		2,066		1,349
Oxford[1]		923		670		1,829		1,135
Mr. Mikes		823		-		1,320		591
Nurse Next Door		1,246		1,222		2,492		2,444
Mr. Lube SSSG[3]		21.8%		-12.5%		13.2%		-10.0%
Oxford SSSG[3, 6]		41.3%		-41.4%		3.4%		-29.9%

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) 2020 and 2021 figures include the impact of the DIV Royalty Entitlement and management fees received from Nurse Next Door.
3) Adjusted revenue, adjusted royalty income, normalized EBITDA, distributable cash, distributable cash 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.
4) A non-cash impairment of $19.8 million was recorded during the six months ended June 30, 2020 related to the MRM Rights (defined below). For additional information see "Results of Operations – Impairment Loss".
5) At period end.
6) After the impact of foreign currency translation, SSSG was 38.9% for the three months and 2.0% for the six months ended June 30, 2021, compared to -40.7% for the three months and -29.3% for the period from February 20, 2020 to June 30, 2020.

ROYALTY POOLS

(000's)	Three months ended June 30, 2021	Three months ended June 30, 2020	Six months ended June 30, 2021	Six months ended June 30, 2020
Mr. Lube	$ 4,698	$ 3,516	$ 8,273	$ 6,979
AIR MILES®	1,623	1,529	3,148	3,358
Sutton	1,006	493	2,012	1,315
Oxford[1]	913	660	1,809	1,121
Mr. Mikes	823	-	1,320	585
Royalty income	**$ 9,063**	**$ 6,198**	**$ 16,562**	**$ 13,358**
DIV Royalty Entitlement	1,227	1,203	2,454	2,406
Adjusted royalty income[2]	**$ 10,290**	**$ 7,401**	**$ 19,016**	**$ 15,764**
Management fees[1]	111	96	222	200
Adjusted revenue[2]	**$ 10,401**	**$ 7,497**	**$ 19,238**	**$ 15,964**

1) 2020 figures include royalties and management fees from Oxford from the date of the Oxford Rights acquisition on February 20, 2020.
2) Adjusted royalty income and adjusted revenue are non-IFRS measures and as such, do not have standardized meetings 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.

ML LP licensed the ML Rights to Mr. Lube for a 99 year term ending on August 19, 2114, in exchange for a royalty payment currently equal to 7.95% 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.

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 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. On May 1, 2021, DIV paid Mr. Lube the remaining $0.9 million of cash consideration for the additions to the Mr. Lube Royalty Pool that occurred on the 2019 Adjustment Date. See "Mr. Lube Royalty Rate Increase and Mr. Lube Royalty Pool Additions" below.

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

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, two of which options have previously been exercised. Specifically, 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%, and on May 1, 2021, the royalty rate paid by Mr. Lube on non-Tire Sales was further increased by 0.5% to 7.95%. The royalty rate on Tire Sales remains unchanged at 2.5%. See "Mr. Lube Royalty Rate Increase and Mr. Lube Royalty Pool Additions" below.

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.

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 would be increased by 0.5% from 7.45% to 7.95% effective May 1, 2021, and (ii) the Mr. Lube Royalty Pool would be adjusted to include royalties from 13 additional Mr. Lube locations effective May 1, 2021. 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. A copy of the LP Amendment has been filed on SEDAR at www.sedar.com.

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% was to be calculated based on a 7.25x multiple of the incremental annual royalty revenue from such increase, which consideration was required to be paid in cash. The Mr. Lube Royalty Rate increase is currently expected to generate additional royalty revenue for DIV of approximately $1.16 million per annum, based on the forecasted non-Tire Sales of the locations in the Mr. Lube Royalty Pool of $232 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 of $8.3 million was paid to Mr. Lube on May 1, 2021 in cash.

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 was 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 is required to be paid in cash. The initial consideration paid to Mr. Lube on May 1, 2021 for the estimated net additional royalty revenue from the 13 Mr. Lube locations added to the Mr. Lube Royalty Pool was $7.7 million, representing 80% of the total current estimated consideration of $9.6 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.

Second Quarter

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $63.1 million in the second quarter of 2021, compared to $49.4 million in the second quarter of 2020. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 21.8% in the second quarter of 2021, an improvement compared to SSSG of -12.5% in the second quarter of 2020, primarily due to the easing of restrictions and lockdown measures that had been implemented by various levels of government to combat the COVID-19 pandemic.

Royalty income was $4.7 million in the second quarter of 2021, an increase of 33.6% compared to the second quarter of 2020. The increase in royalty income was due to positive SSSG, as well as the addition of 13 Mr. Lube locations to the Mr. Lube Royalty Pool and the increase to the Mr. Lube Royalty Rate on May 1, 2021.

Year-To-Date

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $112.2 million for the six months ended June 30, 2021, compared to $96.8 million in the prior period. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 13.2% for the six months ended June 30, 2021 compared to -10.0% for the six months ended June 30, 2020. Mr. Lube's SSSG for the six months ended June 30, 2020 was more significantly negatively impacted by the COVID-19 pandemic, and the ensuing restrictions and lockdown measures than the current period. Mr. Lube reported that the SSSG for Mr. Lube's flagship stores was 2.7% for the six months ended June 30, 2021 when compared to the same period in 2019.

Royalty income increased to $8.3 million for the six months ended June 30, 2021, compared to $7.0 million for the six months ended June 30, 2020. The increase in royalty income was due to positive SSSG, as well as the addition of 13 Mr. Lube locations to the Mr. Lube Royalty Pool and the increase to the Mr. Lube Royalty Rate on non-Tire sales on May 1, 2021.

As at June 30, 2021, Mr. Lube reported positive working capital and $0.6 million of senior debt outstanding and advised DIV that it was in compliance with all financial covenants under its credit facilities.

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 the 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.

Second Quarter

Royalty income from the AIR MILES® Licenses increased by $0.1 million to $1.6 million in the three months ended June 30, 2021 compared to the same prior period.

According to ADS' news release dated July 29, 2021, the AIR MILES® reward miles issued increased by 8.2% in Q2 2021 compared to Q2 2020, reflecting an increase in discretionary spending, including credit card spend. In addition, ADS announced that AIR MILES® reward miles redeemed increased by 31.6% in Q2 2021 compared to Q2 2020, reflecting an improvement in travel-related categories and continued strength from merchandise redemptions (including a significant increase in redemptions and average flight bookings per day in June 2021).

Year-To-Date

Royalty income from the AIR MILES® Licenses was $0.2 million lower in the six months ended June 30, 2021 compared to the same prior period in 2020, and was $0.5 million lower compared to the same period in 2019.

AIR MILES® reward miles issued decreased by 5.0% for the six months ended June 30, 2021, reflecting a decline in discretionary spending compared to 2020. AIR MILES® reward miles redeemed decreased by 3.9% during the six months ended June 30, 2021, reflecting the impact of the COVID-19 pandemic on travel-related categories, partially offset by strength from merchandise redemptions. ADS also noted AIR MILES® is working with travel partners to offer promotions and redemptions to drive increased collector travel and tourism, as appropriate, leading to optimism in the latter half of 2021. In addition, on May 12, 2021, ADS announced its intention to spin off its LoyaltyOne segment into a US-based, publicly trading company by the end of 2021. According to ADS, additional details of the proposed spinoff are expected to be announced in the coming months.

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 1st of each year. On July 1, 2021, the monthly Sutton Royalty Rate was increased from $62.105 per agent to $63.347 per agent. There are currently 5,400 agents in the Sutton Royalty Pool.

Second Quarter and Year-to-Date

Royalty income increased by $0.5 million to $1.0 million for the three months and by $1.3 million to $2.0 million for the six months ended June 30, 2021 compared to the same prior periods. DIV waived 50% of Sutton's March 2020 royalty and management fees and 75% of Sutton's April and May 2020 royalty and management fees in connection with the dramatic slow-down of residential real estate activity that occurred following the initial onset of the COVID-19 pandemic, and the related impact on Sutton's business. The Canadian residential real estate market has experienced a broad recovery following a period of low transactional activity in April and May 2020.

Since June 2020, Sutton has paid all scheduled fixed monthly royalty and management fee payments in full.

As at June 30, 2021, Sutton reported positive working capital and that it had no senior debt outstanding.

Oxford

OX Royalties Limited Partnership ("OX LP"), an entity controlled by DIV, owns the trademarks and certain other intellectual property rights utilized by Oxford in its franchised supplementary education services business (the "Oxford Rights").

On February 20, 2020, 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 is eligible to add new Oxford locations to the Oxford Royalty Pool on May 1st of each year. 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).

Second Quarter

System sales for the Oxford locations within the Oxford Royalty Pool were $11.9 million in the second quarter of 2021, compared to $8.6 million for the second quarter of 2020. Oxford locations in the Oxford Royalty Pool generated SSSG on a constant currency basis of 41.3% in the second quarter of 2021 (after the impact of foreign currency translation, SSSG was 38.9%), compared to -41.4% in the second quarter of 2020 (after the impact of foreign currency translation, SSSG was -40.7%). Oxford was more adversely impacted by the COVID-19 pandemic in 2020 compared to 2021 in connection with the temporary suspension of in-centre services at the majority of its locations.

Royalty income from Oxford was $0.9 million in the second quarter of 2021, an improvement compared to $0.7 million for the second quarter in 2020 due to positive SSSG.

Year-To-Date

System sales for the Oxford locations within the Oxford Royalty Pool was $23.6 million for the six months ended June 30, 2021, compared to $14.6 million for the period from February 20, 2020 to June 30, 2020. Oxford locations in the Oxford Royalty Pool generated SSSG on a constant currency basis of 3.4% for the six months ended June 30, 2021 (after the impact of foreign currency translation, SSSG was 2.0%) compared to -29.9% for the period from February 20, 2020 to June 30, 2020 (after the impact of foreign currency translation, SSSG was -29.3%). Oxford was more adversely impacted by the COVID-19 pandemic in 2020 compared to 2021 in connection with the temporary suspension of in-centre services at the majority of its locations. 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 $1.8 million for the six months ended June 30, 2021, compared to $1.1 million for the period from February 20, 2020 to June 30, 2020.

As government restrictions in Ontario for in-person tutoring were relaxed in mid-July 2021, and the new school year will be starting in September, Oxford is optimistic about the second half of 2021.

As at June 30, 2021, Oxford reported positive working capital and no senior 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.

Second Quarter and Year-to-Date

SSSG for Mr. Mikes restaurants in the royalty pool, including restaurants that were temporarily closed due to the COVID-19 pandemic, was approximately 77% in the second quarter of 2021 compared to the second quarter of 2020 and -50% compared to the second quarter of 2019. SSSG for the six months ended June 30, 2021 for Mr. Mikes restaurants in the royalty pool was flat compared to the six months ended June 30, 2020 and -43% compared to the six months ended June 30, 2019. Mr. Mikes restaurants were closed for in-restaurant dining for most of Q2 2020, which negatively impacted SSSG that quarter. The majority of Mr. Mikes restaurants were open for in-restaurant dining at a reduced capacity as of mid-June 2021. Mr. Mikes continues to expect a protracted recovery.

Royalty income from Mr. Mikes was $0.8 million in the second quarter of 2021, and is 80% of the contractual fixed royalty amount of $1.0 million. Royalty income from Mr. Mikes was $1.3 million for the six months ended June 30, 2021, and is 65% of the contractual fixed royalty amount of $2.0 million for the six months ended June 30, 2021. DIV continued to provide Mr. Mikes with royalty and management fee relief in 2021.

For the three and six months ended June 30, 2020, royalty income from Mr. Mikes was nil and $0.6 million respectively. DIV waived 100% of Mr. Mikes' fixed royalty and management fee payments for the period from February 24, 2020 to July 12, 2020 in connection with the impact of the COVID-19 pandemic on Mr. Mikes' business and collected 30% of the fixed contractual royalty amount for the six months ended June 30, 2020. Further royalty and management fee relief was granted to Mr. Mikes for the remainder of 2020.

DIV expects continued royalty and management fee relief will be required by Mr. Mikes until such time as all government restrictions impacting the operation of Mr. Mikes restaurants are lifted and the business stabilizes. As at the end of Mr. Mikes' second quarter of 2021, Mr. Mikes reported positive working capital and no senior debt outstanding on its operating line of credit. Mr. Mikes has also advised DIV that Mr. Mikes was in compliance with the financial covenants under its operating line of credit at the end of its second 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.

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 eligible to sell incremental royalties to NND Royalties LP. 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".

Second Quarter and Year-To-Date

The DIV Royalty Entitlement was $1.2 million for the three months and $2.5 million for the six months ended June 30, 2021, and reflects the contractual 2.0% increase compared to the same prior periods in 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 during the reported periods.

Nurse Next Door has a strong balance sheet with positive working capital and $0.2 million of senior debt outstanding at June 30, 2021. 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 June 30, 2021		2020	Six months ended June 30, 2021		2020
Net income (loss)	**5,209**	**$**	**2,881**	**9,345**	**$**	**(8,850)**
Interest expense on credit facilities	1,822		1,749	3,572		3,558
Income tax expense (recovery)	1,992		1,439	3,588		(2,967)
Depreciation expense	23		-	41		-
EBITDA[1]	9,046		6,069	16,546		(8,259)
Adjustments:						
Share-based compensation	304		391	449		711
Impairment loss	-		-	-		19,841
Other finance costs (income), net	449		442	910		(525)
Fair value adjustment on financial instruments	(1,627)		(1,334)	(2,657)		398
Payment of lease obligations	(8)		-	(8)		-
Transaction costs	96		-	96		-
DIV Royalty Entitlement, net of NND Royalties LP expenses	1,222		1,199	2,444		2,388
Normalized EBITDA[1]	9,482		6,767	17,780		14,554
Less: interest expense on credit facilities	(1,822)		(1,749)	(3,572)		(3,558)
Less: distributions on MRM units	-		-	-		(33)
Less: current tax expense	(892)		(135)	(1,567)		(624)
Add: interest income	6		15	19		37
Distributable cash[1]	**6,774**	**$**	**4,898**	**12,660**	**$**	**10,376**
Distributable cash per share[1]	0.0556	$	0.0405	0.1042	$	0.0889
Dividends declared per share	0.0500		0.0500	0.1000		0.1079
Weighted average number of shares outstanding	121,745		120,825	121,532		116,762
Payout Ratio[1]	**89.9%**		**123.4%**	**96.0%**		**121.5%**

1) EBITDA, normalized EBITDA, distributable cash, distributable cash per share, payout ratio, DIV Royalty Entitlement net of NND Royalties LP Expenses 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 June 30, 2021	2020	Six months ended June 30, 2021	2020
Cash from operating activities	4,770	$ 5,676	10,866	$ 9,857
Changes in working capital	1,512	(1,400)	1,609	(295)
Current tax expense	(892)	(135)	(1,567)	(624)
Taxes paid	530	-	1,657	1,223
Accrued interest on convertible debentures	755	755	-	-
Foreign exchange gain (loss)	6	6	3	(8)
Transaction costs	96	-	96	-
Payment of lease obligations	(8)	-	(8)	-
NND LP expenses and accrued costs	5	(4)	4	223
Distributable cash[1]	**6,774**	**$ 4,898**	**12,660**	**$ 10,376**

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

In the second quarter of 2021, distributable cash increased to $6.8 million compared to $4.9 million in the prior period (an increase of $0.0151 per share). The increase in distributable cash was primarily due to higher adjusted revenue, partially offset by higher current tax expense, salaries and benefits and interest expense. The increase in distributable cash per share was primarily due to the increase in distributable cash, partially offset by a higher weighted average number of common shares outstanding.

For the six months ended June 30, 2021, distributable cash increased by $2.3 million (increase of $0.0153 per share) compared to the prior period. The increase in distributable cash was due to higher adjusted revenue, partially offset by higher current tax expense and salaries and benefits. The increase in distributable cash per share was primarily due to an increase in distributable cash partially offset by a higher weighted average number of common shares outstanding for the six months ended June 30, 2021.

Dividends Declared

In the second quarter of 2021, the Company declared dividends in the aggregate amount of $6.1 million ($0.0500 per share), compared to $6.0 million ($0.0500 per share) in the second quarter of 2020. The increase in the total amount of dividends declared was due to a higher weighted average number of common shares outstanding in the second quarter of 2021.

For the six months ended June 30, 2021, the Company declared dividends in the aggregate amount of $12.2 million ($0.1000 per share), compared to $12.6 million ($0.1079 per share) in the prior period. The decrease was due to a lower monthly dividend rate effective April 2020, partially offset by a higher weighted average number of common shares outstanding.

Payout Ratio

In the second quarter of 2021, the payout ratio was 89.9%, a decrease when compared to the payout ratio in the second quarter of 2020 of 123.4%. The decrease was primarily due to higher distributable cash, partially offset by a higher weighted average number of common shares outstanding, which resulted in a higher dividends paid.

For the six months ended June 30, 2021, the payout ratio was 96.0%, a decrease when compared to the payout ratio for the six months ended June 30, 2020 of 121.5%. The decrease was primarily due to higher distributable cash and lower dividends declared.

The Board approved the temporary suspension of the DRIP starting with the April 2020 monthly dividend. The DRIP was subsequently reinstated 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 Q2 2021 Financial Statements.

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2021**	**2020**	**2021**	**2020**
Royalty income	$ 9,063	$ 6,198	16,562	$ 13,358
Management fees	111	96	222	200
Revenues	9,174	6,294	16,784	13,558
Expenses				
Salaries and benefits	566	382	889	777
Share-based compensation	304	391	449	711
General and administration	213	220	359	348
Professional fees	246	124	329	267
Impairment loss	-	-	-	19,841
Income (Loss) from operations	7,845	5,177	14,758	(8,386)
Interest expense on credit facilities	(1,822)	(1,749)	(3,572)	(3,558)
Other finance (costs) income, net	(449)	(442)	(910)	525
Fair value adjustment on financial instruments	1,627	1,334	2,657	(398)
Income (Loss) before income taxes	7,201	4,320	12,933	(11,817)
Income tax expense (recovery)	1,992	1,439	3,588	(2,967)
Net income (loss) and comprehensive income (loss)	5,209	$ 2,881	9,345	$ (8,850)

Revenue

Second Quarter

Revenue in the second quarter of 2021 was $9.2 million compared to $6.3 million in the prior period. After taking into account the DIV Royalty Entitlement related to Nurse Next Door, adjusted revenue was $10.4 million in the second quarter of 2021 and $7.5 million in the second quarter of 2020. Adjusted revenue increased in the second quarter due to Mr. Lube's positive SSSG, the addition of 13 stores to the Mr. Lube Royalty Pool along with the increase in the Mr. Lube Royalty Rate on non-Tire sales on May 1, 2021, higher royalty income from Mr. Mikes and Sutton, as DIV granted royalty and management fee relief to Mr. Mikes and Sutton in Q2 2020, positive SSSG at Oxford, higher royalty income from the AIR MILES licenses and the contractual 2% increase in the DIV Royalty Entitlement from Nurse Next Door. The increase in adjusted revenue was partially offset by the impact of the COVID-19 pandemic, which included continued royalty and management fee relief for Mr. Mikes in Q2 2021.

Year-To-Date

Revenue for the six months ended June 30, 2021 was $16.8 million compared to $13.6 million in the prior year. After taking into account the DIV Royalty Entitlement related to Nurse Next Door, adjusted revenue was $19.2 million for the six months ended June 30, 2020 and $16.0 million in the prior year. The increase in adjusted revenue was due Mr. Lube's positive SSSG, the addition of 13 stores to the Mr. Lube Royalty Pool along with the increase in the Mr. Lube Royalty Rate on non-Tire sales on May 1, 2021, incremental revenues from Oxford in connection with the acquisition of the Oxford Rights in February 2020 as well as positive SSSG at Oxford, and higher royalty income from Mr. Mikes and Sutton, as DIV granted royalty and management fee relief to Mr. Mikes and Sutton in the prior period. The increase was partially offset by lower royalty income from the AIR MILES licenses and continued royalty and management relief for Mr. Mikes in 2021.

Salaries and Benefits

Second Quarter and Year-To-Date

Salaries and benefits expense increased by $0.2 million and $0.1 million for the three and six months ended June 30, 2021, when compared to the same prior periods. The increase was primarily due to an increase in base salaries and a higher incentive amount recorded in the current quarter.

Share-based Compensation

Second Quarter and Year-To-Date

Share-based compensation decreased by $0.1 million and $0.3 million for the three and six months ended June 30, 2021, when compared to the same prior periods. The decrease was due to the full amortization of certain restricted share units and stock options in 2020, partially offset by additional restricted share units granted in 2021.

General and Administration

Second Quarter and Year-To-Date

General and administration expense for the three and six months ended June 30, 2021 were comparable to the same prior periods.

Professional Fees

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

Second Quarter and Year-To-Date

The increase in professional fees of $0.1 million for the three and six months ended June 30, 2021 were due to transaction costs incurred on potential royalty acquisitions.

Impairment Loss

Second Quarter and Year-To-Date

During the six months ended June 30, 2020, the Company recorded a non-cash impairment of $19.8 million related to the MRM Rights in connection with the impact of the COVID-19 pandemic on the Mr. Mikes business.

Interest Expense on Credit Facilities

Second Quarter and Year-To-Date

Interest expense on credit facilities for the three and six months ended June 30, 2021 were comparable to the same prior periods.

Other Finance (Costs) Income, Net

The following table summarizes other finance costs, net of income, for the three and six months ended June 30, 2021 and 2020.

	Three months ended June 30,		Six months ended June 30,	
(000's)	**2021**	**2020**	**2021**	**2020**
Finance income	$ 6	$ 15	$ 19	$ 37
Foreign exchange gain	(6)	(6)	(3)	8
Distributions on MRM units	-	-	-	(33)
Amortization of deferred financing fees	(180)	(205)	(393)	(400)
Accretion expense and other	(269)	(246)	(533)	913
	$ (449)	$ (442)	$ (910)	$ 525

Second Quarter

The second quarter of 2021 was comparable to the prior period.

Year-To-Date

Other finance costs, net of income, increased by $1.4 million for the six months ended June 30, 2021, compared to the same prior period. The increase was primarily due to a non-cash gain related to the Mr. Mikes promissory note recorded during the six months ended June 30, 2020, which was calculated as the difference between the carrying value of the promissory note and the revised present value.

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.

Second Quarter

The fair value gain on financial instruments in the second quarter of 2021 consists of a $1.5 million gain on the Company's investment in NND Royalties LP and a $0.2 million gain on the Company's interest rate swaps, partially offset by a loss of $0.1 million on the MRM LP exchangeable units and ML LP exchangeable units.

The fair value gain on financial instruments in the second quarter of 2020 primarily consists of a $1.4 million gain on the Company's investment in NND Royalties LP, partially offset by a $0.1 million loss on the MRM LP exchangeable units.

Year-To-Date

The fair value gain on financial instruments for the six months ended June 30, 2021 consists of a $2.1 million gain on the Company's investment in NND Royalties LP, a $0.7 million gain on interest rate swaps, partially offset by a $0.1 million loss on the MRM LP exchangeable units.

The fair value loss on financial instruments for the six months ended June 30, 2020 consists of a $2.4 million loss on interest rate swaps, partially offset by a $1.5 million gain on the Company's investment in NND Royalties LP and a $0.5 million gain on the MRM LP exchangeable units.

Income Tax Expense

Second Quarter

The income tax expense increased by $0.6 million in the second quarter of 2021, when compared to the prior period. The increase was primarily due to higher income before taxes.

Year-To-Date

Income tax expense increased by $6.6 million during the six months ended June 30, 2021 compared to the prior period. The increase was primarily due to higher 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 $205.3 million at June 30, 2021. In addition, pursuant to NND Royalties LP's limited partnership agreement, its undepreciated capital cost allowance of approximately $47.7 million at June 30, 2021 is allocated to the Company for tax purposes.

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)	Q2 2021	Q1 2021	Q4 2020	Q3 2020	Q2 2020	Q1 2020	Q4 2019	Q3 2019
Revenue	9,174	$ 7,610	$ 8,915	$ 8,023	$ 6,294	$ 7,264	$ 8,408	$ 8,103
Net income (loss)	5,209	$ 4,136	$ 847	$ (882)	$ 2,881	$ (11,731)	$ 4,189	$ 3,936
Earnings (Loss) per common share								
Basic	0.04	$ 0.03	$ 0.01	$ (0.01)	$ 0.02	$ (0.10)	$ 0.04	$ 0.04
Diluted	0.04	$ 0.03	$ 0.01	$ (0.01)	$ 0.02	$ (0.10)	$ 0.04	$ 0.04

Revenue

The second quarter of 2021 reflects the positive trends being experienced by DIV's royalty partners, driven primarily by the relaxing of COVID-19 restrictions across Canada. In addition, on May 1, 2021, Mr. Lube added 13 locations to the Mr. Lube Royalty Pool, and increased the Mr. Lube Royalty Rate on non-Tire sales, which resulted in incremental revenue to the Company.

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. In the first quarter of 2021, government restrictions were re-implemented to combat the second and third wave of COVID-19 in various regions. This resulted in the renewed temporary suspension of in-centre services at the majority of Oxford locations and the temporary closure of in-restaurant dining at Mr. Mikes restaurants. In addition, restrictions aimed to reduce travel and encourage or mandate work from home arrangements negatively impacted sales at Mr. Lube locations.

In the third quarter and fourth quarter of 2020, the Company's Royalty Partners experienced encouraging trends in their businesses as various governments temporarily 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 the fourth quarter of 2020, certain governments 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 the fourth quarter of 2020.

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.

On February 20, 2020, the Company acquired the Oxford Rights through OX LP. 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.

Net Income (Loss)

Net income (loss) reflects the trend in quarterly revenue, offset by fluctuations associated with the impairment of intangible assets, 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, in consultation with management, 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, 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 may 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"). DIV continued to provide royalty and management fee relief to Mr. Mikes during the six months ended June 30, 2021. 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 June 30, 2021, DIV's Royalty Partners reported minimal to no senior debt on their balance sheets and have advised DIV that they have minimal capital expenditure obligations.

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 the dividend declared in the month of April 2020.

As at June 30, 2021, the Company had a cash balance of $4.3 million (December 31, 2020 - $9.2 million) and working capital of $5.2million (December 31, 2020 - working capital of $10.2 million). The decrease in cash and working capital was primarily related to the cash consideration paid to Mr. Lube on May 1, 2021 in connection with the Mr. Lube Royalty Rate increase and the additions to the Mr. Lube Royalty Pool.

As at June 30, 2021, the following table summarizes the Company's contractual obligations, 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	$ 1,802	$ 1,802	$ 1,802	$ -	$ -	$ -	$ -
Promissory note	3,179	4,952	-	-	-	-	4,952
Lease obligation[1]	756	1,035	(50)	104	107	110	764
Long-term bank loans[2]	109,754	123,342	1,940	21,083	3,269	27,798	69,252
Convertible debentures	55,240	62,029	1,510	60,519	-	-	-
Exchangeable ML LP Units	974	974	-	974	-	-	-
Total contractual obligations	$ 171,705	$ 194,134	$ 5,202	$ 82,680	$ 3,376	$ 27,908	$ 74,968

1) The Company is entitled to a lease incentive amount from its landlord, which is expected to be received in 2021.
2) 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.

The extension of the maturity dates for the ML LP and SGRS LP credit facilities (see "Capital Resources – Long-Term Debt") reduces the Company's liquidity risk.

As at June 30, 2021, the Company was in compliance with all financial covenants associated with its Acquisition Facility (defined below) and other credit facilities. In March 2021, AM LP entered into an amended and restated credit agreement with its lender to amend its financial covenants for the first three fiscal quarters of 2021. If AM LP had not entered into such amendment, AM LP would have been in breach of its financial covenant for the quarter ended June 30, 2021. In February 2021, MRM LP negotiated a covenant amendment to its credit agreement, which included a suspension to its financial covenants for the quarters ended March 31, 2021 and June 30, 2021. If MRM LP had not entered into such covenant amendment, MRM LP would have been in breach of its financial covenants for the quarter ended June 30, 2021. 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. Under IFRS *Leases* ("IFRS 16"), DIV recognized a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company's annual fixed lease payments are approximately $0.1 million over the 10 year term of the lease.

Currency risk

Currency risk is the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates. During the second quarter of 2021, the Company was exposed to currency risk arising from cash denominated in U.S. dollars. As at June 30, 2021, 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 of 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. As at June 30, 2021, the interest rate risk related to long-term bank loans is mitigated by interest rate swap arrangements that fix the interest rates on $72.6 million of the Company's $110.5 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 six months ended June 30, 2021, the Company recorded a $0.7 million gain 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 June 30, 2021. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.25% (December 31, 2020 – 14.0%). 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 June 30, 2021, the investment in NND Royalties LP was valued at $43.3 million and a fair value gain of $2.1 million was recorded for the six months ended June 30, 2021.

CASH FLOWS

(000's)	Six months ended June 30, 2021	2020
Cash from operating activities	$ 10,866	$ 9,857
Cash from financing activities	449	40,563
Cash used in investing activities	(16,274)	(44,321)
Increase in cash	(4,959)	6,099
Cash, beginning of period	9,218	2,968
Cash, end of period	$ 4,259	$ 9,067

Cash From Operating Activities

Cash from operating activities for the six months ended June 30, 2021 increased by $1.0 million compared to the prior period. The increase was primarily due to higher income from operations, after adjusting for the impairment loss recorded during the six months ended June 30, 2020, the increase in the distributions received from NND Royalties LP and fluctuations in working capital.

Cash From Financing Activities

Cash used in financing activities for the six months ended June 30, 2021 was related to dividends paid net of the DRIP.

Cash from financing activities for the six months ended June 30, 2020 was related to proceeds from the public offering of 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 the DRIP and equity issuance costs.

Cash Used in Investing Activities

Cash used in investing activities for the six months ended June 30, 2021 was primarily related to the Mr. Lube Royalty Rate increase, the addition of 13 locations to the Mr. Lube Royalty Pool, both on May 1, 2021, as well as the payment of the remaining consideration to Mr. Lube related to the addition of four locations to the Mr. Lube Royalty Pool on May 1, 2019.

Cash used in investing activities for the six months ended June 30, 2020 was related to the acquisition of the Oxford Rights.

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 June 30, 2021, the Company's subsidiaries had term loan facilities with a total drawn amount of $110.5 million. These term loan facilities have floating interest rates equal to the Bankers' Acceptance Rate plus a credit spread ranging from 1.90% to 2.50%. The Company has interest rate swap arrangements that fix the interest rates on $72.6 million of the Company's $110.5 million floating rate term loan facilities with interest rates ranging from 2.96% to 4.72%.

The Company's subsidiaries also have operating lines of credit with a total value of $5.5 million that had an undrawn balance of $5.4 million at June 30, 2021 and August 12, 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.

On May 1, 2021, ML LP amended its credit facility agreement to increase its non-amortizing term facility from $41.6 million to $53.0 million. The increase in the term loan facility was used to partially finance the consideration paid to Mr. Lube for the increase in the Mr. Lube Royalty Rate and the additions to the Mr. Lube Royalty Pool. Effective May 1, 2021, the ML LP term loan facility bears interest at the banker's acceptance rate plus 2.5%, an increase of 0.55%. In addition, the maturity date was extended from July 31, 2022 to May 1, 2025.

On June 11, 2021, SGRS LP amended the terms of its credit agreement to extend the maturity date to June 30, 2026, from June 30, 2022. Effective June 11, 2021, the SGRS term loan facility bears interest at the banker's acceptance rate plus 1.95%, an decrease of 0.05%.

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 30th and December 31st of each year. As at June 30, 2021 and August 12, 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 June 30, 2021, and August 12, 2021, the Acquisition Facility was undrawn.

Common Shares

As at August 12, 2021, there were 122,029,223 common shares issued and outstanding.

Share Options

As at August 12, 2021, there were 3,116,667 options outstanding, which may be exercised to purchase an equivalent number of common shares at exercise prices ranging between $2.52 per share to $3.53 per share.

Restricted Share Units

As at August 12, 2021, there were 645,521 RSUs outstanding, which may be settled for an equivalent number of common shares upon vesting.

Short Form Base Shelf Prospectus

On May 11, 2021, the Company filed a short form base shelf prospectus that is valid for a 25-month period during which time DIV may, from time to time, issue common shares, warrants, subscription receipts, debt securities, convertible securities or rights or any combination hereof, including in the form of units, having an aggregate offering price of up to $200 million.

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.

The determination to declare and pay dividends is at the discretion of the Board of Directors, and until declared payable, the Company has no requirement to pay cash dividends to its shareholders. The 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 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 2021 are as follows:

Month	Payment date	Dividend / share
August 2021	August 31, 2021	$ 0.01750
July 2021	July 31, 2021	$ 0.01667
June 2021	June 30, 2021	$ 0.01667
May 2021	May 31, 2021	$ 0.01667
April 2021	April 30, 2021	$ 0.01667
March 2021	March 31, 2021	$ 0.01667
February 2021	February 26, 2021	$ 0.01667
January 2021	January 29, 2021	$ 0.01667

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 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.

The positive trends in DIV's Royalty Partners and the recent accretive incremental royalty purchases from Mr. Lube have resulted in an increase to DIV's distributable cash. As a result, on July 29, 2021, the Board of Directors approved an increase to DIV's monthly dividend from $0.01667 per share ($0.20 per share on an annualized basis) to $0.0175 per share ($0.21 per share on an annual basis) effective with the dividend declared in the month of August 2021.

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.

The Board approved the temporary suspension of the DRIP starting with the April 2020 monthly dividend. The DRIP was subsequently reinstated with the January 2021 monthly dividend.

TRANSACTIONS WITH RELATED PARTIES

In addition to information disclosed elsewhere in this MD&A, the Company had the following related party transactions during the six months ended June 30, 2021. 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 had a services agreement with Maxam (the "Maxam Services Agreement") whereby Maxam provided office space and administrative services to the Company. The Maxam Services Agreement was terminated on May 31, 2021. In May 2021, DIV entered into a services agreement and cost sharing agreement with Maxam Capital Management Ltd. ("MCM"), an entity in respect of which Mr. Morrison is a director, and Mr. Morrison and Mr. Ciampi are minority shareholders, through which DIV provides certain office space and administrative services to MCM (the "MCM Agreements"). The transactions under the Maxam Services Agreement and the MCM Agreements are not material to DIV, Maxam, MCM or Mr. Ciampi but are identified here for purposes of full disclosure.

SIGNIFICANT ACCOUNTING POLICIES

The Q2 2021 Financial Statements accompanying this MD&A have been prepared using the same accounting principles and policies as the Company's annual financial statements for the year ended December 31, 2020, except as described below.

IFRS 16 has a single on-balance sheet lease accounting model for lessees. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method.

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 financial statements for the year ended December 31, 2020 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 Company's financial statements for the year ended December 31, 2020.

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", "DIV Royalty Entitlement net of NND Royalties LP expenses", "adjusted royalty income", "adjusted revenue", "EBITDA", "normalized EBITDA", "distributable cash", "distributable cash per share", "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.

DIV Royalty Entitlement net of NND Royalties LP Expenses

DIV Royalty Entitlement net of NND Royalties LP expenses is calculated as the DIV Royalty Entitlement net of expenses related to NND Royalties LP, which include legal, audit, tax and advisory services. In addition to net income and cash flow from operations, DIV Royalty Entitlement net of NND Royalties LP expenses is a useful supplemental measure as it provides investors with an indication of cash available for distribution generated by NND Royalties LP.

EBITDA and Normalized EBITDA

EBITDA is calculated as earnings before interest, taxes, depreciation and amortization. Normalized EBITDA is calculated as EBITDA before certain items including: share-based compensation, litigation expense, impairment loss, other finance income (costs), the fair value adjustment on financial instruments, payment of lease obligations and transaction costs, 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 and Distributable Cash per Share

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. Distributable cash per share 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. Distributable cash per share is defined as distributable cash divided by the weighted average number of common shares outstanding during the period. The Company’s method of calculating distributable per share 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.

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 dividends per share during the period by the distributable cash per share 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 Q2 2021 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. 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 three months ended June 30, 2021.

No changes were made in the Company's design of ICFR during the three months ended June 30, 2021, 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) may 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; recently 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 temporarily closed may not reopen, and those that are open may be forced to close in the future as a direct or indirect result of the impacts of COVID-19 and related government restrictions; 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; 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; the remaining consideration payable to Mr. Lube for the 13 Mr. Lube locations added to the Mr. Lube Royalty Pool on May 1, 2021; ADS noting that AIR MILES® is working with travel partners to offer promotions and redemptions to drive increased collector travel and tourism as appropriate, leading to optimism in the latter half of 2021; ADS' intention to spin off its LoyaltyOne segment into a US-based, publicly trading company by the end of 2021; Oxford being optimistic about the second half of 2021 as government restrictions in Ontario were relaxed-mid July 2021 and with the new school year starting in September; Mr. Mikes' expectation that it will continue to experience a protracted recovery; DIV's expectation that Mr. Mikes will continue to require royalty and management fee relief until such time as as all government restrictions impacting the operation of Mr. Mikes restaruants are lifted and the business stabalizes; DIV's expectation that Nurse Next Door will continue to make its royalty payments in full; 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, pursue a normal course issuer bid, temporarily suspend the DRIP, reduce the monthly dividend or reduce debt; and DIV issuing securities under the short form base shelf prospectus having an aggregate offering price of up to $200 million.

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; 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; and DIV will be able to obtain debt financing for such transactions on reasonable terms; recent positive trends for certain of DIV's royalty partners (including their respective franchisees) will continue and not regress; 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; 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 temporarily close 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; the performance of AIR MILES® may not improve in the second half of 2021 as currently expected by ADS; Oxford's performance may not improve in the second half of 2021 as currently expected; Mr. Mikes may not make its fixed royalty payments to DIV, in whole or in part; 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 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; 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 or statements in this MD&A constitute a "financial outlook" within the meaning of applicable securities laws, such information is being provided to investors to provide investors with an estimate of the financial impact to DIV of the increase to the Mr. Lube royaltyrRate and the addition of 13 Mr. Lube locations to the Mr. Lube Royalty Pool that occurred 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 as well as financial statements and other reports provided to DIV by its Royalty Partners. 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.