DIVERSIFIED

DIV

ROYALTY CORP.

Management's Discussion and Analysis

For the three months ended March 31, 2019

May 9, 2019

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

BASIS OF PRESENTATION

This management's discussion and analysis ("MD&A") in respect of the results of operations of Diversified Royalty Corp. ("DIV" or the "Company") for the three months ended March 31, 2019 should be read in conjunction with the Company's condensed consolidated interim financial statements for the three months ended March 31, 2019 (the "Q1 2019 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, 2019 for the year ended December 31, 2018, is available on SEDAR at www.sedar.com.

Statements made in this MD&A and in the Q1 2019 Financial Statements are subject to the risks and uncertainties identified in the "Risks Factors" and "Forward Looking Statements" sections of this document. The Company has included the non-IFRS measures of EBITDA, normalized EBITDA, distributable cash, same stores sales growth, and payout ratio in this MD&A. For further information on these measures, see the "Description of Non-IFRS and Additional IFRS Measures" section of this MD&A.

Readers are referred to the condensed consolidated interim financial statements and MD&A of Mr. Lube Canada Limited Partnership ("Mr. Lube") for the three months ended March 31, 2019. As DIV no longer views the royalty revenues received from Sutton Group Realty Services Ltd. ("Sutton") to be significant, subsequent to the 2017 annual financial statements and management's discussion and analysis filed on SEDAR, Sutton ceased filing these documents and will not recommence filing such documents unless the royalty revenues received from Sutton become significant to DIV in the future.

OVERVIEW

DIV is a multi-royalty corporation, engaged in the business of acquiring royalties from well-managed multi-location businesses and franchisors in North America ("Royalty Partners"). The Company believes that its royalty structure provides a strong incentive for a Royalty Partner to continue growing its business while retaining control of its business.

The Company's primary objectives are to (i) purchase stable and growing royalty streams from Royalty Partners, and (ii) increase distributable cash per share by making accretive royalty purchases. These objectives will allow the Company to pay a dividend to shareholders, while increasing the dividend as distributable cash per share allows.

The Company's revenue for the three months ended March 31, 2019 consists of royalties and management fees that are contractually agreed to between the Company and its Royalty Partners:

- Mr. Lube: royalties are based on the top-line system sales of Mr. Lube flagship stores in the royalty pool (the "Mr. Lube Royalty Pool"). As at March 31, 2019, Mr. Lube had 177 locations, of which 118 were in the Mr. Lube Royalty Pool. In addition to the royalty, Mr. Lube pays the Company a management fee of approximately $0.2 million per year for strategic and other services;
- Sutton: royalties are based on the number of Sutton agents in the royalty pool (the "Sutton Royalty Pool"). As at March 31, 2019, there were 5,400 agents in the Sutton Royalty Pool. In addition to the royalty, Sutton pays the Company a management fee of approximately $0.1 million per year for strategic and other services; and
- 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").

The Company's ongoing cash expenditures are comprised of salaries and benefits, general and administration (including public company costs), professional fees, and interest on credit facilities. The success of the Company currently depends largely on the ability of Mr. Lube and Sutton to maintain and increase the sales or number of agents in the respective royalty pools, and, in the case of LoyaltyOne, the gross billings generated through the AIR MILES® Reward Program.

FINANCIAL HIGHLIGHTS

(000's except per share amounts and number of agents and locations)		Three months ended March 31, 2019		2018
Consolidated:				
Revenue[1]	$	6,403	$	6,016
Royalty income[1]		6,325		5,939
Normalized EBITDA[2]		5,816		5,438
Distributable cash[2]		4,813		4,555
Income from operations		5,425		4,857
Net income		2,484		2,630
Dividends declared		6,000		5,935
Basic earnings per share	$	0.02	$	0.02
Diluted earnings per share		0.02		0.02
Distributable cash flow per share[2]		0.04		0.04
Dividends declared per share		0.06		0.06
Total assets[3]	$	318,585	$	315,692
Total non-current financial liabilities[3]		117,803		108,856
Mr. Lube Royalty Pool :				
Number of locations[3]		118		117
System sales	$	49,752	$	47,062
Royalty income and management fees[1]		3,716		3,312
SSSG[2]		5.6%		4.5%
Sutton Royalty Pool :				
Number of agents[3]		5,400		5,400
Royalty income and management fees	$	992	$	973
AIR MILES ® Reward Program :				
Gross billings	$	169,506	$	173,127
Royalty income	$	1,695	$	1,731

1) Royalty income from Mr. Lube includes make-whole payments of $0.01 million for the three months ended March 31, 2018 on lost system sales of $0.2 million. Effective May 1, 2018, with the net addition of one Mr. Lube location to the Mr. Lube Royalty Pool, the Company ceased to receive make-whole payments from Mr. Lube.

2) Normalized EBITDA, distributable cash, distributable cash flow per share, and SSSG are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, refer to the sections "EBITDA, Normalized EBITDA and Distributable Cash" and "Description of Non-IFRS and Additional IFRS Measures" in this MD&A.

3) At period end.

ROYALTY POOLS

Mr. Lube

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

(000's, except number of locations)	Three months ended March 31, 2019		2018	
Number of locations[1]		118		117
System sales	$	49,752	$	47,062
Royalty income[2]	$	3,663	$	3,260
Management fees	$	53	$	52

1) At period end.
2) For the three months ended March 31, 2018, royalty income from Mr. Lube includes make-whole payments of $0.01 million on lost system sales of $0.2 million. Effective May 1, 2018, with the net addition of one Mr. Lube location to the Mr. Lube Royalty Pool, the Company ceased to receive make-whole payments from Mr. Lube.

ML Rights

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

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

Mr. Lube has the option, subject to meeting certain performance criteria, to increase the Mr. Lube Royalty Rate on non-Tire Sales in four 0.5% increments. On May 1, 2018, the royalty rate paid by Mr. Lube on non-Tire Sales was increased by 0.5% from 6.95% to 7.45%. The royalty rate on Tire Sales remains unchanged at 2.5%. The total consideration paid to Mr. Lube for the increase in the Mr. Lube Royalty Rate was $9.2 million. DIV elected to pay for this consideration in cash, which was partially financed by an increase in the term loan facility of ML LP as described under the section "Capital Resources".

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, 2018 (the "2018 Adjustment Date"), the Mr. Lube Royalty Pool was adjusted to include the royalties from two new Mr. Lube locations and to remove one Mr. Lube location that was permanently closed. With the adjustment for these two openings and one closure, the Mr. Lube Royalty Pool had 118 locations on May 1, 2018. The initial consideration paid to Mr. Lube for the estimated net additional royalty revenue was $0.9 million, representing 80% of the total estimated consideration of $1.2 million. DIV elected to pay the initial consideration to Mr. Lube in cash, which was partially financed by an increase in the term loan facility of ML LP as described under the section "Capital Resources". Based on the actual system sales of the two new locations added to the Mr. Lube Royalty Pool on the 2018 Adjustment Date, the total consideration for the net additional royalty revenue is $1.1 million. After taking into account the $0.9 million previously paid to Mr. Lube on May 1, 2018, Mr. Lube received an additional $0.2 million of cash consideration on May 1, 2019.

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 of $3.4 million. DIV elected to pay the initial consideration to Mr. Lube in cash. The remaining consideration payable will be paid to Mr. Lube on May 1, 2020, the next Adjustment Date, and will be adjusted to reflect the actual system sales of the four new locations added to the Mr. Lube Royalty Pool for the year ending December 31, 2019.

For Mr. Lube, changes in system sales are derived from both SSSG from existing locations in the Mr. Lube Royalty Pool and from the addition of new Mr. Lube locations to the Mr. Lube Royalty Pool.

If a Mr. Lube location is permanently closed, Mr. Lube is required to pay a make-whole payment (the "Mr. Lube Make-Whole Payment"), which is based on the gross system sales of the trailing 12-month period immediately before it was permanently closed, multiplied by the Mr. Lube Royalty Rate and pro-rated for the number of days in the royalty period that the location was permanently closed.

First Quarter

System sales for the Mr. Lube locations within the Mr. Lube Royalty Pool were $49.8 million for the first quarter of 2019, compared to $47.1 million in the same period last year. SSSG for the Mr. Lube locations within the Mr. Lube Royalty Pool was reported by Mr. Lube as 5.6% for the first quarter of 2019 compared to 4.5% in the first quarter of 2018. Mr. Lube's SSSG was driven by continued strong store-level execution and expansion of the tire business.

Royalty income increased to $3.7 million for the first quarter of 2019, compared to $3.3 million in the prior period. The increase was due to the increase in the Mr. Lube Royalty Rate that came into effect on May 1, 2018, the net addition of one additional Mr. Lube location to the Mr. Lube Royalty Pool on May 1, 2018, and positive SSSG.

Sutton

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

(000's, except number of agents)	Three months ended March 31, 2019		2018
Number of agents[1]		5,400	5,400
Royalty income	$	967	$ 948
Management fees	$	25	$ 25

1) At period end.

SGRS Rights

SGRS Royalties Limited Partnership ("SGRS LP"), an entity controlled by the Company, owns all the Canadian and U.S. trademarks and certain other intellectual property rights utilized by Sutton in its residential real estate franchise business (the "SGRS Rights").

SGRS LP licensed the SGRS Rights to Sutton for 99 years in exchange for a monthly royalty payment (the "Sutton Royalty Rate"), based on a determined number of agents in the Sutton Royalty Pool. The Sutton Royalty Rate grows by 2.0% per year, effective July 1st of each year. On July 1, 2018, the Sutton Royalty Rate was increased from $58.523 per agent per month to $59.693 per agent per month.

First Quarter

Sutton made its scheduled fixed monthly royalty and management fee payments during first quarter of 2019. Sutton's results were in line with expectations. Royalty income from Sutton of $1.0 million for the first quarter of 2019 reflects the contractual 2.0% increase compared to the first quarter of 2018.

AIR MILES® Reward Program

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

(000's)	Three months ended March 31, 2019		2018
Gross billings	$	169,506	$ 173,127
Royalty income	$	1,695	$ 1,731

AIR MILES® Rights

AM Royalties Limited Partnership ("AM LP") (a wholly owned subsidiary of the Company), owns the Canadian AIR MILES® trademarks and certain related Canadian intellectual property rights (collectively, the "AIR MILES® Rights"). In accordance with the terms of two license agreements with LoyaltyOne (collectively the "AIR MILES® Licenses") acquired by AM LP as part of the acquisition of the AIR MILES® Rights, LoyaltyOne has an exclusive right to use the AIR MILES® Rights for purposes of operating the AIR MILES® Reward Program in Canada for an indefinite term in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Reward Program. LoyaltyOne is a subsidiary of Alliance Data Systems Inc. ("ADS"), a NYSE listed company.

Gross billings for the AIR MILES® Reward Program is derived from several AIR MILES® metrics, including the issuance and redemption of AIR MILES®, service revenue, commissions and promotional items. Variations in these metrics collectively affect DIV's royalty income under the AIR MILES® Licences.

First Quarter

Royalty income from the AIR MILES® Licenses was $1.7 million for the first quarter of 2019, a 2.1% decrease compared to the prior period. According to ADS' news release dated April 25, 2019, the AIR MILES® reward miles issued increased by 3% in the first quarter of 2019. ADS also disclosed that AIR MILES® reward miles redeemed decreased by 8% in the first quarter of 2019.

Gross billings for the AIR MILES® Reward Program is derived from several AIR MILES® metrics, including AIR MILES reward miles issued, AIR MILES reward miles redeemed, service revenue, commissions and promotional items, which affect quarterly variability.

EBITDA, NORMALIZED EBITDA AND DISTRIBUTABLE CASH

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

(000's)	Three months ended March 31, 2019	2018
Net income	**$ 2,484**	**$ 2,630**
Interest expense on credit facilities	1,446	1,245
Income tax expense	1,064	1,164
EBITDA[1]	4,994	5,039
Adjustments:		
Share-based compensation	391	296
Litigation	-	285
Other finance income, net	(105)	(54)
Fair value adjustment on interest rate swaps	536	(128)
Normalized EBITDA[1]	5,816	5,438
Less: interest expense on credit facilities	(1,446)	(1,245)
Add: Interest income	443	362
Distributable cash[1]	**$ 4,813**	**$ 4,555**
Distributable cash flow per share[1]	$ 0.0446	$ 0.0427
Dividends declared per share	0.0556	0.0556
Payout Ratio[1]	**124.6%**	**130.1%**

1) EBITDA, normalized EBITDA, distributable cash and payout ratio are non-IFRS measures and as such, do not have standardized meanings under IFRS. For additional information regarding these financial metrics, refer to the "Non-IFRS Measures" and "Additional IFRS Measures" in this MD&A.

The following table reconciles distributable cash to cash from operating activities:

(000's)	Three months ended March 31, 2019	2018
Cash from operating activities	$ 5,709	$ 5,496
Changes in working capital	(145)	(465)
Accrued interest on convertible debentures	(755)	(756)
Litigation expense	-	285
Foreign exchange loss (gain)	4	(5)
Distributable cash[1]	**$ 4,813**	**$ 4,555**

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

Distributable Cash

For the three months ended March 31, 2019, distributable cash increased by $0.3 million ($0.0019 per share) due to the increase in the Mr. Lube Royalty Rate and the net addition of one store to the Mr. Lube Royalty Pool on May 1, 2018. The increase was partially offset by higher interest expense related to the $7.0 million increase in ML LP's term loan facility on May 1, 2018.

Dividends Declared

For the three months ended March 31, 2019, the Company declared dividends in the aggregate amount of $6.0 million ($0.0556 per share), compared to $5.9 million ($0.0556 per share) in the prior period. The increase in the aggregate amount of dividends declared was due to a higher number of weighted average shares outstanding during the current period.

Payout Ratio

The payout ratio is calculated by dividing the total dividends declared during the period by the distributable cash generated in that period.

The payout ratio for the three months ended March 31, 2019 of 124.6% decreased, when compared to the payout ratio in the prior period of 130.1%. The decrease was due to higher distributable cash in the first quarter of 2019 related to the increase in the Mr. Lube Royalty Rate and the net addition of one store to the Mr. Lube Royalty Pool on May 1, 2018, partially offset by higher interest expense associated with the increase in ML LP's term loan facility.

The Company's payout ratio in the first quarter 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.

For the first quarter of 2019, the dividends declared exceeded distributable cash by $1.2 million, which resulted in a payout ratio of 124.6%. However, the Company has a dividend reinvestment plan ("DRIP"), as described under the section "Dividends to Shareholders – Dividend Reinvestment Plan". As the dividends may be settled through a reinvestment in the Company's shares, the payout ratio on a cash basis was 106.6% for the first quarter of 2019. The shortfall in distributable cash was funded by the proceeds received from the sale of the trademarks and other intellectual property rights (the "FW Rights") related to the business of Franworks Franchise Corp. ("Franworks") in November 2016.

The Company intends to use the remaining proceeds from the sale of the FW Rights in November 2016 as well as the proceeds from the convertible debenture offering in November 2017 to fund future royalty acquisitions, with the intention of achieving a payout ratio that approximates 100% over time. The Company expects the payout ratio to remain over 100% until such time as further royalty acquisitions are completed and excess cash has been deployed. The Company's board of directors reviews the dividend policy on an ongoing basis.

As at March 31, 2019, the DRIP participation rate was 23.2%.

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 Q1 2019 Financial Statements of the Company.

	Three months ended March 31,	
(000's)	**2019**	**2018**
Royalty income	$ 6,325	$ 5,939
Management fees	78	77
Revenues	6,403	6,016
Expenses		
Salaries and benefits	409	405
Share-based compensation	391	296
General and administration	125	117
Professional fees	53	56
Litigation	-	285
Income from operations	5,425	4,857
Interest expense on credit facilities	(1,446)	(1,245)
Other finance income, net	105	54
Fair value adjustment on interest rate swaps	(536)	128
Income before income taxes	3,548	3,794
Income tax expense	1,064	1,164
Net income and comprehensive income	$ 2,484	$ 2,630

Revenue

First Quarter

Revenue increased by $0.4 million for the three months ended March 31, 2019, when compared to the prior period. The increase in revenue was primarily due to: (i) the increase in the Mr. Lube Royalty Rate and the net addition of one store to the Mr. Lube Royalty Pool on May 1, 2018; (ii) positive SSSG at Mr. Lube; and (iii) the annual contractual 2.0% increase in the Sutton Royalty Rate, effective as of July 1st of each year. The increase in revenue was partially offset by lower AIR MILES® royalty income.

Salaries and Benefits

First Quarter

Salaries and benefits expense for the three months ended March 31, 2019 was comparable to the prior period.

Share-based Compensation

First Quarter

Share-based compensation increased by $0.1 million for the three months ended March 31, 2019, when compared to the prior period. The increase was primarily due to additional restricted share units ("RSUs") issued.

General and Administration

First Quarter

General and administration expense for the three months ended March 31, 2019 was comparable to the prior period.

Professional Fees

First Quarter

Professional fees are comprised of legal, audit, tax, and advisory services. Professional fees for the three months ended March 31, 2019 were comparable to the prior period.

Litigation

First Quarter

Litigation expense for the three months ended March 31, 2018 was related to the counterclaim and defense against a U.S. contractor. As this matter was settled in November 2018, no further litigation costs were incurred by the Company.

Interest Expense on Credit Facilities

First Quarter

Interest expense on credit facilities increased by $0.2 million for the three months ended March 31, 2019, compared to the prior period. The increase was primarily due to the $7.0 million increase to the ML LP term loan facility on May 1, 2018 related to the Mr. Lube Royalty Rate increase and net addition of one store to the Mr. Lube Royalty Pool.

Other Finance Income, Net

The following table summarizes other finance income, net of costs, for the three months ended March 31, 2019 and 2018.

	Three months ended March 31,	
(000's)	**2019**	**2018**
Finance income	$ 443	$ 362
Foreign exchange gain (loss)	(4)	5
Amortization of deferred financing fees	(144)	(136)
Accretion expense	(190)	(177)
	$ 105	$ 54

First Quarter

Other finance income for the three months ended March 31, 2019 was relatively comparable to the prior period.

Income Tax Expense

First Quarter

Income tax expense decreased by $0.1 million for the three months ended March 31, 2019, compared to the prior period. The decrease was primarily due to lower income before taxes.

Non-Capital Loss Carry-Forwards and Eligible Capital Expenditures

As at March 31, 2019, the Company had approximately $1.9 million of non-capital losses, compared to non-capital losses of $3.8 million at December 31, 2018.

In addition, the Company has intangible assets related to the SGRS Rights, ML Rights and AIR MILES® Rights, which have an undepreciated capital cost allowance of approximately $147.9 million at March 31, 2019, compared to $150.3 million at December 31, 2018.

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)	Q1 2019	Q4 2018	Q3 2018	Q2 2018	Q1 2018	Q4 2017	Q3 2017	Q2 2017
Revenue	$ 6,403	$ 7,170	$ 6,742	$ 6,781	$ 6,016	$ 6,865	$ 5,371	$ 4,535
Net income	$ 2,484	$ 1,053	$ 3,397	$ 3,040	$ 2,630	$ 3,468	$ 3,089	$ 2,690
Earnings per common share								
Basic	$ 0.02	$ 0.01	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.03	$ 0.03
Diluted	$ 0.02	$ 0.01	$ 0.03	$ 0.03	$ 0.02	$ 0.03	$ 0.03	$ 0.03

Revenue

On August 25, 2017, the Company acquired the AIR MILES® Rights, which resulted in an increase in revenues during the third quarter of 2017 and subsequent periods. On May 1, 2018, Mr. Lube elected to increase the Mr. Lube Royalty Rate from 6.95% to 7.45% and added one net new location to the Mr. Lube Royalty Pool, which resulted in an increase in revenues during the second quarter of 2018 and subsequent periods.

Net Income

Net income reflects the trend in quarterly revenue, offset by fluctuations associated with litigation 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 has responsibility for the oversight of the Company's risk management framework and closely monitor the Company's internal controls and ability to pay future dividends.

Credit risk

Credit risk is associated with the Company's cash and cash equivalents, royalties and management fees receivable, and amounts receivable. Credit risk on the Company's cash and cash equivalents is mitigated by holding these amounts with Canadian chartered banks of high creditworthiness. Credit risk on the royalties and management fees receivable is monitored through regular review of the Company's Royalty Partners.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities and other contractual obligations. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due. As at March 31, 2019, the Company had a cash and cash equivalents balance of $78.9 million (December 31, 2018 - $78.3 million) and working capital of $81.4 million (December 31, 2018 - working capital of $81.7 million). The working capital as at March 31, 2019 reflects the net cash proceeds from the sale of the FW Rights and the convertible debenture offering, partially offset by the cash deployed in the acquisition of the AIR MILES® Rights, the increase in the Mr. Lube Royalty Rate and net addition of one net new location to the Mr. Lube Royalty Pool.

As at March 31, 2019, the following table summarizes the contractual maturities of financial liabilities, including estimated interest payments and the interest rate swap arrangements on a consolidated basis.

(000's)	Carrying amount	Contractual cash flow	2019	2020	2021	2022	Thereafter
Accounts payable and accrued liabilities	$ 1,516	$ 1,516	$ 1,516	$ -	$ -	$ -	$ -
Long-term bank loans[1]	64,884	74,467	2,053	2,738	2,738	66,938	-
Convertible debentures	52,246	68,821	2,264	3,019	3,019	60,519	-
Total contractual obligations	$ 118,646	$ 144,804	$ 5,833	$ 5,757	$ 5,757	$ 127,457	$ -

1) Includes the impact of interest rate swap agreements.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

Currency risk

Currency risk is the risk that the fair value or future cash flows will fluctuate due to changes in foreign exchange rates. During the three months ended March 31, 2019, the Company was exposed to currency risk arising from cash denominated in U.S. dollars. As at March 31, 2019, cash denominated in U.S. dollars was less than US$0.2 million.

Interest risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates. The Company's exposure to interest rate risk mainly arises from the long-term bank loans, which are subject to floating interest rates. As at March 31, 2019, interest rate risk is mitigated by interest rate swap arrangements that fix the interest rates on $49.6 million of the Company's $65.3 million floating rate term loan facilities. The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. For the three months ended March 31, 2019, the Company recorded a $0.5 million expense related to the interest rate swaps.

CASH FLOWS

	Three months ended March 31,	
(000's)	2019	2018
Cash from operating activities	$ 5,709	$ 5,496
Cash used in financing activities	(5,131)	(5,206)
Increase in cash	578	290
Cash, beginning of period	78,342	85,816
Cash, end of period	$ 78,920	$ 86,106

Cash From Operating Activities

Cash from operating activities for the three months ended March 31, 2019 increased by $0.2 million compared to the prior period. The increase was primarily due to higher income from operations offset by higher interest paid net of interest income received, as well as fluctuations in non-cash working capital.

Cash Used in Financing Activities

Cash used in financing activities for the three months ended March 31, 2019 and 2018 was primarily related to dividends paid net of DRIP.

CAPITAL RESOURCES

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

Long-Term Debt and Convertible Debentures

As at March 31, 2019, the Company's subsidiaries had the following term loan facilities:

- ML LP: $41.6 million non-amortizing loan that matures on July 31, 2022 and bears interest at the BA rate plus 1.95%. The Company has an interest rate swap arrangement that results in a fixed interest rate of 4.17% for $34.6 million of the term loan facility until July 31, 2022;
- SGRS LP: $6.3 million non-amortizing loan that matures on June 30, 2022 and bears interest at the BA rate plus 2.0%. The Company has an interest rate swap arrangement that results in a fixed rate of 4.641% for 100% of the term loan facility until June 21, 2021; and
- AM LP: $17.4 million non-amortizing loan that matures on September 6, 2022 and bears interest at the BA rate plus 2.25%. The Company has an interest rate swap arrangement that results in a fixed interest rate of 4.417% for $8.7 million of the term loan facility until August 19, 2022.

In addition, the Company has the following operating lines of credit, which were undrawn at March 31, 2019 and May 9, 2019:

- ML LP: $1.0 million operating line of credit that matures on July 31, 2022, and bears interest at prime plus 0.25%;
- SGRS LP: $0.5 million operating line of credit, which matures on June 30, 2022 and bears interest at the BA rate plus 2.0%; and
- AM LP: $3.0 million operating line of credit, which matures on September 6, 2022 and bears interest at the BA rate plus 2.25%.

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%. DIV intends to use the net proceeds from the Convertible Debentures to fund potential future acquisitions, and may be used for, among other things, to fund general administration expenses and salaries, payment of deposits for potential acquisitions and to fund working capital. As at March 11, 2019, 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 shares at a conversion price of $4.55 per share as of such date.

Management expects to refinance the non-amortizing loans as they become due, and has sufficient cash resources to settle other contractual liabilities as they become payable.

It is the Company's intention to acquire future royalty streams in separate legal entities without cross-collateralization so that, to the maximum extent possible, any liability exposure in one legal entity does not affect the balance sheet of any other legal entity. However, there can be no assurance that this will be achieved.

Common Shares

As at May 9, 2019, there were 108,240,333 common shares issued and outstanding.

Share Options

As at May 9, 2019, there were 2,300,000 options outstanding, which may be exercised to purchase an equivalent number of common shares at exercise prices ranging between $3.22 per share to $3.53 per share.

Restricted Share Units

As at May 9, 2019, there were 904,390 RSUs outstanding, which may be settled for an equivalent number of common shares upon vesting.

DIVIDENDS TO SHAREHOLDERS

The Company intends to pay monthly dividends to shareholders, and the Company's directors will review dividend levels on an ongoing basis.

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

The Company's dividends are deemed eligible dividends for Canadian tax purposes. The year-to-date dividends declared in 2019 are as follows:

Month	Payment date	Dividend / share
May 2019	May 31, 2018	$ 0.01854
April 2019	April 30, 2018	$ 0.01854
March 2019	March 29, 2019	$ 0.01854
February 2019	February 28, 2019	$ 0.01854
January 2019	January 31, 2019	$ 0.01854

Dividend Reinvestment Plan

The DRIP allows eligible holders of the Company's common shares to reinvest their cash dividends paid in respect of their common shares in additional common shares of the Company. At the Company's election, these additional common shares may be issued from treasury or purchased on the open market. If the Company elects to issue common shares from treasury, the common shares will be purchased under the DRIP at a 3% discount to the volume weighted average of the closing price for the Common Shares on the TSX for the five trading days immediately preceding the relevant dividend payment date. The Company may, from time to time, change or eliminate the discount applicable to common shares issued from treasury.

During the three months ended March 31, 2019, there were 291,720 common shares issued under the DRIP.

TRANSACTIONS WITH RELATED PARTIES

In addition to information disclosed elsewhere in this MD&A, the Company had the following related party transactions during the three months ended March 31, 2019. These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Maxam Services Agreement

The Company's President and CEO, Sean Morrison, and one of the Company's directors, Johnny Ciampi, are co-founders and managing partners of Maxam Capital Corp. ("Maxam"). The Company has a services agreement with Maxam whereby Maxam provides rent and administrative services to the Company for a fee of approximately $0.1 million per annum.

SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated interim financial statements accompanying this MD&A have been prepared using the same accounting principles and policies as the Company's annual financial statements for the year ended December 31, 2018, except as described below.

Changes in accounting policies and disclosures

On January 1, 2019, the Company adopted IFRS 16, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The Company does not have any leases within the scope of IFRS 16, therefore the adoption of IFRS 16 did not have an impact on the Company's accumulated deficit as at January 1, 2019.

CRITICAL JUDGMENTS AND KEY ESTIMATES

The preparation of the Company's consolidated financial statements in conformity with IFRS requires estimates and judgments to be made that affect the reported amounts of assets and liabilities, income and expenses, and related disclosures. These estimates are based on historical experience and knowledge of economics, market factors, and the industries that the Company's Royalty Partners operate in (real estate, automotive maintenance and consumer loyalty), along with various other assumptions that are believed to be reasonable under the circumstances.

Significant estimates and judgments made by management in the application of IFRS that have a significant effect on the amounts recognized in its consolidated financial statements are as follows:

Critical Judgments

Consolidation

In applying the criteria outlined in IFRS 10, *Consolidated Financial Statements,* judgment is required in determining whether DIV controls SGRS LP and ML LP. Making this judgment involves taking into consideration the concepts of power over these entities, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of these entities to generate economic returns. Using these criteria, management has determined that DIV ultimately controls these entities through its majority ownership of the respective general partners.

Capitalization of Acquisition Costs

At the time of acquisition, the Company considers whether or not it represents a business combination or an asset acquisition. This requires the Company to make certain judgments as to whether or not the assets acquired include the inputs, processes and outputs necessary to constitute a business. Under a business combination, acquisition-related costs are recognized as an expense. When the acquisition does not represent a business combination, it is accounted as an asset acquisition, where the costs are capitalized to the respective asset.

Key Estimates and Assumptions

Intangible Assets

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

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

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

The Company does not assign any value to the Exchangeable Partnership Units as they do not currently meet the relevant criteria for exchange into common shares of DIV (see note 8 in the Company's annual financial statements for the year ended December 31, 2018 for further information).

Deferred Taxes

Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. In recognizing a deferred tax asset, management makes estimates related to expectations of future taxable income, and the expected timing of reversals of existing temporary differences.

Convertible Debentures

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

DESCRIPTION OF NON-IFRS AND ADDITIONAL IFRS MEASURES

Non-IFRS Measures

Management believes that disclosing certain non-IFRS financial measures provides readers of this MD&A with important information regarding the Company's financial performance and its ability to pay dividends. By considering these measures in combination with the most closely comparable IFRS measure, management believes that investors are provided with additional and more useful information about the Company than investors would have if they simply considered IFRS measures alone. The non-IFRS financial measures do not have standardized meanings prescribed by IFRS and therefore are unlikely to be comparable to similar measures presented by other issuers. Investors are cautioned that non-IFRS measures should not be construed as a substitute or an alternative to net income or cash flows from operating activities as determined in accordance with IFRS.

In addition to financial measures prescribed by IFRS, "EBITDA", "Normalized EBITDA", "Distributable Cash", "Same Store Sales Growth" and "Payout Ratio" are used as non-IFRS measures in this MD&A.

EBITDA and Normalized EBITDA

EBITDA is calculated as earnings before interest, taxes, depreciation and amortization. Normalized EBITDA is calculated as EBITDA before certain items including: share-based compensation, litigation expense, impairment loss, other finance income (costs), and fair value adjustment on interest rate swaps. While Normalized EBITDA is not a recognized measure under IFRS, management of the Company believes that, in addition to net income, Normalized EBITDA is a useful supplemental measure as it provides investors with an indication of cash available for distribution prior to debt service needs, litigation expenditures and interest income. The methodologies used by the Company to determine Normalized EBITDA may differ from those utilized by other issuers or companies and, accordingly, Normalized EBITDA as used in this MD&A may not be comparable to similar measures used by other issuers or companies. Readers are cautioned that Normalized EBITDA should not be construed as an alternative to net income or loss determined in accordance with IFRS as indicators of an issuer's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows. The table under the section "EBITDA, Normalized EBITDA, and Distributable Cash" provides a reconciliation from this non-IFRS financial measure to net income.

Distributable Cash

Distributable Cash is defined as Normalized EBITDA less interest expense on the credit facilities, plus interest income. Distributable cash is a non-IFRS financial measure that does not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar measures presented by other issuers.

Management believes that Distributable Cash provides investors with useful information about the amount of cash the Company has generated to cover dividends on the shares during the period. The table under the section "EBITDA, Normalized EBITDA, and Distributable Cash" provides a reconciliation from this non-IFRS financial measure to net income and cash flows from operating activities.

Same Store Sales Growth or SSSG

Same store sales growth is the percentage increase in store sales over the prior comparable period for locations that were open in both the current and prior periods, excluding stores that were permanently closed. Same store sales growth is a non-IFRS financial measure and does not have a standardized meaning prescribed by IFRS. However, the Company believes that SSSG is a useful measure as it provides investors with an indication of the change in year-over-year sales of Mr. Lube locations. The Company's method of calculating same store sales growth may differ from those of other issuers or companies and, accordingly, same store sales growth may not be comparable to similar measures used by other issuers or companies.

Payout Ratio

The payout ratio is calculated by dividing the total dividends declared during the period by the distributable cash generated in that period. The payout ratio is not a recognized measure under IFRS, however, management of the Company believes that it provides supplemental information regarding the extent to which the Company distributes cash 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 Q1 2019 Financial Statements include certain additional IFRS measures where management considers such information to be useful to understanding the Company's financial results.

RISK FACTORS

Investing in securities of DIV involves a high degree of risk. In addition to the risks identified elsewhere in this MD&A, investors should carefully consider all of the risk factors associated with the Company and its business, identified in the Company's Annual Information Form dated March 11, 2019 for the year ended December 31, 2018 under the heading "Risk Factors", a copy of which is available on SEDAR at www.sedar.com. The occurrence of any of such risks, or other risks not presently known to DIV or that DIV currently believes are immaterial, could materially and adversely affect DIV's investments, prospects, cash flows, results of operations or financial condition, DIV's ability to pay cash dividends to its shareholders and DIV's ability to make principal and interest payments to holders of Convertible Debentures. In that event, the value of the 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 March 31, 2019.

No changes were made in the Company's design of ICFR during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

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

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

FORWARD LOOKING STATEMENTS

Certain statements in this MD&A, and documents referred to herein, may constitute "forward-looking information" within the meaning of applicable securities laws. Such statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements or industry results, to be materially different from any future results, performance or achievements or industry results expressed or implied by such forward-looking information. Forward-looking information is generally identified by the use of terms and phrases such as "anticipate", "continue", "believe", "could", "estimate", "expect", "intend", "may", "plan", "predict", "project", "will", "would", "should" and similar terms and phrases, including references to assumptions. Such information includes, but is not limited to, statements with respect to expectations, projections or other characterizations of future events or circumstances, and DIV's objectives, goals, strategies, beliefs, intentions, plans, estimates, projections and outlook, including statements relating to the estimates or predictions of actions of customers, competitors or regulatory authorities, and statements regarding DIV's future economic performance. DIV has based these forward-looking statements on DIV's current expectations about future events. Some of the specific forward-looking statements in this MD&A include, but are not limited to, statements with respect to: DIV's 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; the payment of the remaining consideration owing to Mr. Lube in respect of the addition of four new locations to the Mr. Lube Royalty Pool, and the timing thereof; 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; DIV's intention of achieving a payout ratio that approximates 100% over time; DIV's expectation that the payout ratio will remain over 100% until such time as further royalty acquisitions are completed and excess cash has been deployed; DIV's intention to acquire future royalty streams in separate legal entities without cross-collateralization; the expected use by DIV of the remaining cash proceeds from the sale of FW Rights, including to complete further royalty acquisitions; the expected use by DIV of the cash proceeds from the Convertible Debentures issued, including to complete further royalty acquisitions; 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 Mr. Lube royalty payments made by Mr. Lube 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; DIV may in managing its capital issue new shares, issue new debt, adjust the amount of dividends paid to its shareholders or pursue a normal course issuer bid; and Sutton ceasing to file financial statements and management's discussion and analysis until such time as the Royalty revenues received from Sutton become significant to DIV in the future.

Forward-looking information contained in this MD&A is based on certain key expectations and assumptions made by the Company, including, without limitation, expectations and assumptions respecting: the general economy; the payment of royalties and management fees from Sutton and Mr. Lube and adjustments thereto; the payment of royalties from LoyaltyOne; the ability to acquire and effect of additional royalties; the business strategy, growth opportunities, budgets, projected costs, goals, plans and objectives of the Company, Sutton, Mr. Lube and LoyaltyOne; the ability to receive equity and/or debt financing on acceptable terms; tax laws not being changed so as to adversely affect DIV's financing capability, operations, activities, structure or dividends; the expected use by DIV of the cash proceeds from the sale of the FW Rights; the expected use by DIV of the net proceeds from the offering of Convertible Debentures; the ability to retain and continue to attract qualified and knowledgeable personnel; no material changes to government and environmental regulations adversely affecting DIV's operations; and competition for acquisitions, will be consistent with the economic climate. Although the forward-looking information contained in this MD&A is based upon what the Company's management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with such information. Undue reliance should not be placed on the forward-looking information since no assurance can be given that it will prove to be correct.

Forward-looking information reflects current expectations of the Company's management regarding future events and operating performance as of the date of this MD&A. Such information involves significant risks and uncertainties, should not be read as guarantees of future performance or results, and will not necessarily be accurate indications of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking information including, without limitation: the Company's high dependency on the operations of Sutton, Mr. Lube and LoyaltyOne; failure to increase the Company's dividend in the amount or in accordance with the timing expected, or at all; prevailing yields on similar securities; the Company's reliance on key personnel; dividends are not guaranteed and will fluctuate with business performance and may be reduced or suspended at any time; the unpredictability and volatility of prices of the Company's common shares; leverage and restrictive covenants; current economic conditions; failure to access financing; credit facilities risk; the financial health of Sutton, Mr. Lube and LoyaltyOne cash flows; failure to realize anticipated benefits of royalty acquisitions; regulatory risk; regulatory filing and licensing requirements; fluctuations in interest rates; competition for royalty acquisition targets; failure to complete further royalty acquisitions or future royalty acquisitions not being accretive; dependence on the business of Sutton, Mr. Lube and LoyaltyOne to fund dividends; limitations on future growth and cash flow; sensitivity to general economic conditions and levels of economic activity; financing constraints; foreign exchange exposure; and any residual liability arising from its former St. Ambroise plant. Readers are cautioned that the foregoing list is not exhaustive. For additional information with respect to risks and uncertainties, readers should carefully review and consider the risk factors described under "*Risk Factors*" and elsewhere in this MD&A. The information contained in this MD&A, including the documents referred to herein, identifies additional factors that could affect the operating results and performance of the Company. Readers are urged to carefully consider those factors.

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

Third Party Information

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