**Mr. Lube Canada Limited Partnership**

Management's Discussion and Analysis

For the Three Months Ended March 31, 2021

**Financial Highlights**

The following table sets out selected information and other data of Mr. Lube Canada Limited Partnership ("MLC"), which should be read in conjunction with the attached interim financial statements of MLC for the three months ended March 31, 2021.

| | **(Unaudited) Q1, 2021** | **(Unaudited) Q1, 2020** |
|---|---|---|
| Franchise royalties | $3,822,410 | $3,603,355 |
| License, rental & other income | $3,221,488 | $2,744,118 |
| **Subtotal revenue** | **$7,043,898** | **$6,347,473** |
| Marketing fund revenue (1) | $2,126,002 | $1,980,301 |
| Rental revenue (2) | $42,000 | $60,750 |
| Corporate store revenue | $253,583 | $0 |
| **Total revenue** | **$9,465,483** | **$8,388,524** |
| | | |
| General, admin, marketing, corporate store & rental expenses | ($4,808,501) | ($5,372,727) |
| Interest expense | ($8,301) | ($18,872) |
| Sublease interest revenue (2) | $1,512,950 | $1,367,106 |
| Head lease interest expense (2) | ($1,528,878) | ($1,385,006) |
| Royalty expense | ($3,574,593) | ($3,462,905) |
| Management fees | ($55,204) | ($54,122) |
| Amortization of deferred gain | $304,173 | $304,173 |
| Amortization of equipment and leasehold improvements | ($48,086) | ($48,565) |
| Amortization of right-of-use assets | ($37,278) | ($37,278) |
| Other income (expense) (3) | $164,726 | ($63,458) |
| | | |
| **Net earnings (loss)** | **$1,386,491** | **($383,130)** |
| Fair value gain (loss) on investments (4) | $28,617 | ($555,247) |
| **Net earnings (loss) and comprehensive income (loss)** | **$1,415,108** | **($938,377)** |
| | | |
| Add (deduct): | | |
| Interest expense | $8,301 | $18,872 |
| Sublease interest revenue (2) | ($1,512,950) | ($1,367,106) |
| Head lease interest expense (2) | $1,528,878 | $1,385,006 |
| Royalty expense | $3,574,593 | $3,462,905 |
| Management fees | $55,204 | $54,122 |
| Amortization of deferred gain | ($304,173) | ($304,173) |
| Amortization of equipment and leasehold improvements | $48,086 | $48,565 |
| Amortization of right-of-use assets | $37,278 | $37,278 |
| Other income (expense) (3) | ($164,726) | $63,458 |
| Fair value gain (loss) on investments (4) | ($28,617) | $555,247 |
| Marketing fund revenues (1) | ($2,126,002) | ($1,980,301) |
| Marketing fund expenses (1) | $2,554,019 | $3,087,154 |
| Rental revenue (2) | ($42,000) | ($60,750) |
| Rental expense (2) | $42,000 | $60,750 |
| Head office lease expenses (2) | ($47,404) | ($47,404) |
| | | |
| **Adjusted EBITDA (1)(2)(5)** | **$5,037,595** | **$4,075,246** |

Notes:

[1] As part of the transition to IFRS 15 on January 1, 2018, MLC was required to record marketing fund revenues and expenses on a gross basis on the consolidated statement of income. Management expects revenue and expenses to fluctuate throughout the year with seasonal promotions. To provide users with more comparable information, MLC has presented "Adjusted EBITDA" which excludes these items. EBITDA is defined as earnings before interest, taxes, depreciation, and amortization.

[2] As part of the transition to IFRS 16 on January 1, 2019, MLC recognizes a right-of-use asset and a lease obligation at the lease commencement date. Under the new standard, a right-of-use asset is recorded for each head lease based on the present value of future lease payments, with an equal corresponding lease liability. If there is a corresponding sublease, the right-of-use asset is derecognized and an investment in sublease is recognized based on the future value of lease payments received. Interest expenses and revenues as a result of the change in lease liability and change in net investment in sublease will be recorded on a gross basis on the statement of comprehensive income.

[3] Other income (expense) reflects the revaluation of partnership units held by management and other non-recurring gains and losses.

[4] Fair value gain (loss) adjustment reflects the revaluation of the currently exchangeable Class B units to market value as of March 31, 2021.

[5] "Adjusted EBITDA" is a non-IFRS measure and removes the impact of marketing fund revenues and expenses that are required to be presented on the statement of net earnings and comprehensive income under IFRS 15, the impact of differing accounting treatment for head office leases under IFRS 16 and other adjustments noted on page 2. In addition to net earnings, "Adjusted EBITDA" is a useful measure in evaluating the ability to service debt, working capital and capital expenditure needs. The definition of "Adjusted EBITDA" as determined by MLC may differ from the definition determined by others.

**Summary of Quarterly Financial Results (Unaudited)**

| | Q1, 2021 | Q4, 2020 | Q3, 2020 | Q2, 2020 |
|---|---|---|---|---|
| Franchise royalties | $3,822,410 | $4,607,752 | $4,268,001 | $3,711,141 |
| License, rental & other income | $3,221,488 | $4,300,328 | $3,817,516 | $2,653,965 |
| Marketing fund, rental & corporate store revenue | $2,421,585 | $3,124,109 | $2,737,303 | $640,254 |
| Revenue (1) | $9,465,483 | $12,032,189 | $10,822,820 | $7,005,360 |
| Net earnings (loss) and comprehensive income (loss) (2) | $1,415,108 | ($773,243) | $2,814,081 | $1,393,671 |
| **Adjusted EBITDA (3)** | **$5,037,595** | **$6,779,961** | **$6,030,097** | **$4,479,686** |

| | Q1, 2020 | Q4, 2019 | Q3, 2019 | Q2, 2019 |
|---|---|---|---|---|
| Franchise royalties | $3,603,355 | $4,571,680 | $4,242,377 | $4,263,020 |
| License, rental & other income | $2,744,118 | $3,257,645 | $3,161,063 | $2,956,406 |
| Marketing fund, rental & corporate store revenue | $2,041,051 | $3,307,084 | $2,965,135 | $2,806,126 |
| Revenue (1) | $8,388,524 | $11,136,409 | $10,368,575 | $10,025,552 |
| Net earnings (loss) and comprehensive income (loss) (2) | ($938,377) | $110,026 | $917,918 | $852,863 |
| **Adjusted EBITDA (3)** | **$4,075,246** | **$5,398,605** | **$5,149,986** | **$4,985,370** |

Notes:

(1) Revenues fluctuate with changing weather patterns and product mix. Figures reported are inclusive of marketing fund revenues under IFRS 15 that were adopted on January 1, 2018. Figures include rental revenues under IFRS 16 that were adopted on January 1, 2019.

(2) Net earnings (loss) and comprehensive income (loss) are inclusive of marketing fund revenues and expenses under IFRS 15 that were adopted on January 1, 2018, lease interest revenue and expenses under IFRS 16 that were adopted on January 1, 2019 and the revaluation of investments.

(3) Adjusted EBITDA is a non-IFRS measure and removes the impact of marketing fund revenues and expenses outlined in notes 1 & 2, royalty expenses, management fees, lease interest revenues, lease interest expenses, amortization, and other adjustments noted on page 2.

**Management's Discussion and Analysis**

**For the Three Months Ended March 31, 2021**

## Overview

Mr. Lube Canada Limited Partnership ("MLC") is the franchisor of Mr. Lube stores across Canada. Mr. Lube is the leading quick service oil change provider in Canada with 177 locations nationally.

On August 19, 2015, MLC sold trademarks and certain other intellectual property rights ("ML Rights") to ML Royalties Limited Partnership (the "MRLP"), an entity controlled by Diversified Royalty Corp. ("DIV") for a purchase price of approximately $138.9 million. The MRLP licensed the ML Rights back to MLC for 99 years (the "ML Licence" and together with the sale, the "Transaction") in exchange for an initial royalty payment of approximately $12.5 million per annum (the "Royalty").

Following the completion of the Transaction, DIV now owns all the ordinary limited partnership units of the MRLP and MLC now owns all of the Class B, C, D, E and F limited partnership units of the MRLP. The Class B, C, D, E and F LP units may, upon certain performance criteria being met by MLC, be exchanged by MLC for common shares of DIV in connection with certain future increases in the net number of Mr. Lube locations in the Royalty Pool (as defined below) and the amount of the Royalty Rate (as defined below).

MLC is required to use International Financial Reporting Standards ("IFRS") and the financial results disclosed in this Management's Discussion and Analysis ("MD&A") have all been recorded in accordance with those standards.

On March 11, 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. This has resulted in governments worldwide, including the Canadian Federal and Provincial governments, enacting emergency measures to combat the spread of the virus. As a listed essential service, Mr. Lube locations remain open to serve customers across Canada. To support the health and wellbeing of communities, management has proactively enacted measures to reinforce social distancing and minimize customer touchpoints at our locations.

Although the broader impact on future operations and financial performance remains uncertain, management was proactive in enacting measures early on to support franchisee cashflow, including negotiating rent deferrals and concessions, temporarily suspending marketing contributions, arranging for improved payment terms with suppliers, and encouraging franchisees to evaluate government sponsored initiatives. Given the proactive nature of these actions, Mr. Lube has not had to close any flagship locations during the pandemic.

Despite ongoing lockdown measures associated with the pandemic, adjusted EBITDA increased by $962,349 for the three-month period ended March 31, 2021 compared to the three months ended March 31, 2020. Management is confident that MLC will have sufficient working capital and cash flows from operations to fulfill its obligations for the next year.

The current challenging economic climate may lead to adverse changes in cash flows, working capital levels and/or debt balances and related covenants, which may also have a direct impact on MLC's operating results and financial position in the future. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect our business is not known at this time.

**Royalty Pool and Payment**

In accordance with the terms of the Licence and Royalty Agreement dated August 19, 2015 between the MRLP and MLC (the "Licence and Royalty Agreement"), the Royalty is calculated by multiplying the system sales of the Mr. Lube locations in the royalty pool (the "Royalty Pool", initially consisting of 117 flagship stores) by an initial agreed royalty rate of 6.95% (the "Royalty Rate"). The Royalty payments will fluctuate based on the system sales of the Mr. Lube locations included in the Royalty Pool. Effective September 18, 2017, the License and Royalty Agreement was amended to reduce the royalty rate to 2.5% on retail tire sales only ("Retail Tire Sales Program").

Subject to the terms of the Amended and Restated Partnership Agreement dated August 19, 2015, eligible new Mr. Lube locations may be added to the Royalty Pool on May 1st of each year starting in 2016.

On May 1, 2018, an agreement was executed for the first royalty rate increase and the vend-in of two eligible locations into the Royalty Pool. Effective May 1, 2018, the royalty for eligible non-tire system sales of the Mr. Lube stores in the Royalty Pool is 7.45%. As consideration for the rate increase, MLC received $9.2M in exchange for 2.8M Class C units, while the remaining Class C units were surrendered for $1. A further $0.9M was exchanged for the vend-in of two eligible locations into the Royalty Pool. A remaining $0.2M was paid on May 1, 2019 based on the final performance of the two eligible locations.

On May 1, 2019, $2.7M was exchanged for the vend-in of four eligible locations into the Royalty Pool. Based on the final performance of the four eligible locations, up to $1.1M is expected to be received by May 1, 2021.

In addition to the Royalty payments, MLC has agreed to pay DIV a management fee that was initially set at $200,000 per year for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the Licence and Royalty Agreement.

On November 9, 2020, an agreement was reached to increase the royalty rate on non-tire sales from 7.45% to 7.95%. This change, along with the addition of 13 new stores to the Royalty Pool will take place on May 1, 2021.

**OPERATING RESULTS FOR THE THREE MONTHS ENDING MARCH 31, 2021**

**Same Store Sales Growth ("SSSG")**

SSSG, a key driver of franchise royalties for MLC, is the change in net sales of Mr. Lube stores as compared to the net sales for the same period in the previous year, where stores were open for a minimum of 12 months. SSSG is a non-IFRS measure.

Results for the quarter were negatively impacted by COVID-19 and the associated travel restrictions imposed. As an essential service, Mr. Lube locations remained open to serve the community with an increased emphasis on social distancing. For the three-month period ended March 31, 2021, system wide SSSG was positive 3.5% while SSSG for the stores included in the Royalty Pool was positive 3.9%.

**Mr. Lube Stores**

As of March 31, 2021, there were 177 Mr. Lube stores, which is eight less than the number of Mr. Lube stores as of March 31, 2020. There are 122 Flagships included in the Royalty Pool which is consistent with the store count on March 31, 2020. There were two store openings and one closure for the three months ended March 31, 2021 compared to no store openings and no closures for the three months ended March 31, 2020. The closure during the current period was a Walmart co-location. The decision to close this Walmart location was made prior to the onset of the COVID-19 pandemic.

## Revenue

Revenue for the three-month period ending March 31, 2021 was $9,465,483 compared to $8,388,524 for the three-month period ended March 31, 2020, an increase of $1,076,959. The increase was predominantly due to incremental supplier and franchising revenues generated, combined with the addition of a new corporate location during the period.

## Adjusted EBITDA

Adjusted EBITDA increased by $962,349 from $4,075,246 for the three-month period ended March 31, 2020 to $5,037,595 for the three-month period ended March 31, 2021. The change was predominantly due to gains in non marketing related revenue, combined with reductions in general and administrative expenses year over year.

## Net Earnings (Loss)

Net earnings (loss) increased by $1,769,621, from net loss of $383,130 for the three-month period ended March 31, 2020 to earnings of $1,386,491 for the three-month period ended March 31, 2021. Of the increase, $931,259 was due to growth in supplier, franchising, and corporate store streams, while $678,836 was attributable to movements in net marketing revenue relative to expenses. The incremental streams generated more than offset the modest increase in royalty expenses associated with the growth in Royalty Pool sales.

## Net Earnings (Loss) and Comprehensive Income (Loss)

Net earnings (loss) and comprehensive income (loss) increased by $2,353,485, from a loss of $938,377 for the three-month period ended March 31, 2020 to net income of $1,415,108 for the three-month period ended March 31, 2021. The increase was attributable to the $1,769,621 outlined in the net earnings (loss) discussion above, plus the revaluation of 357,716 Class B units to market value, resulting in a year over year fair value change of $583,864.

## Cash Flows

### *Cash Flow from Operating Activities*

During the three-month period ended March 31, 2021 operating activities generated cash of $1,755,675 compared to a generation of $857,830 in the same period in 2020. The change in cash from operations was predominately due to increase in net earnings.

### *Cash Flow from Financing Activities*

During the three-month period ended March 31, 2021, financing activities used $3,342,007 of cash, compared with a use of $2,998,281 during the same period in 2020. The change in financing activities of $343,726 was largely attributable to incremental lease payments made during the period associated with IFRS 16.

### *Cash Flow from Investing Activities*

During the three-month period ended March 31, 2021, investing activities generated cash of $3,021,511, compared to a generation of $2,789,930 in 2020. The positive change in cash of $231,581 was attributable to incremental lease payments received during the period associated with IFRS 16.

## Liquidity and Capital Resources

MLC will use cash flows from operations and a demand operating facility to finance investing and operating activities.

## Commitments

### *Long term incentive compensation*

In 2016, MLC introduced a share-based compensation program to replace the existing long-term incentive plan that expired in 2016. One component of the plan resulted in the issuance of units for the forfeit of any future long-term incentive payments. These units will vest over a 5-year period, contingent upon continued service. The other component of the plan resulted in the issuance of units in exchange for cash consideration, whereby participating management will be paid a bonus that must be used to purchase units. The expense for both components of the plan will be charged rateably over the service period. The vested units issued under the plan contain a mandatory redemption provision and accordingly, are recorded as a liability on the Statement of Financial Position. The vested units are remeasured on an annual basis to determine their redemption amount. During the period, no bonuses were paid, and no units were purchased.

### *Leases*

MLC has rental obligations for office locations and franchise stores. MLC sub-leases franchise stores to franchisees and, under the terms of each sub-lease, each franchisee assumes all obligations under the applicable head lease. MLC does not record franchise store lease revenue or expenses in its statement of comprehensive income and has recorded a recoverable decommissioning obligation on the statement of financial position. See the accounting estimates section for further discussion of the provision for decommissioning obligations. Effective January 1, 2019, MLC adopted IFRS 16, Leases. Under the new standard, a right-of-use asset is recorded for each head lease based on the present value of future lease payments with an equal corresponding lease liability; however, as a result of the sublease, the right-of-use asset is derecognized and a net investment in sublease is recognized based on the future value of lease payments received. Interest expenses and revenues as a result of the change in lease liability and change in net investment in lease will be recorded on a gross basis in the statement of comprehensive income.

### *Management Fees*

Over the past 12 months, MLC paid DIV management fees of $219,734 for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the Licence and Royalty Agreement which expires in 2114.

### *Royalty Expense*

MLC will pay the LP a Royalty calculated by multiplying the non-tire system sales of the Mr. Lube locations in the Royalty Pool by 7.45% and the retail tire sales of the Mr. Lube locations in the Royalty Pool by 2.50%. The Royalty payments will fluctuate based on the system sales of the Mr. Lube locations included in the Royalty Pool. Effective May 1, 2021, the Royalty Rate on non-tire sales for stores in the Royalty Pool will increase from 7.45% to 7.95%.

### *Contractual Obligations*

A summary of the estimated timing of cash flows related to MLC's contractual obligations and commercial commitments as at March 31, 2021 is as follows:

| | < 1 year | 2-3 years | 4-5 years | >5 years | Total | Book Value |
|---|---|---|---|---|---|---|
| Management fees (1) | $224,128 | $461,794 | $480,451 | $58,840,276 | $60,006,649 | $0 |
| Operating lease commitments (2) | $12,404,011 | $24,605,066 | $23,862,475 | $143,382,596 | $204,254,148 | $132,794,507 |
| Accounts payable and accrued liabilities | $6,259,884 | $0 | $0 | $0 | $6,259,884 | $6,259,884 |
| Demand Loan (3) | $836,438 | $0 | $0 | $0 | $836,438 | $836,438 |
| Decommissioning obligation (4) | $0 | $0 | $0 | $884,568 | $884,568 | $884,568 |
| Redeemable Partnership Units | $0 | $0 | $0 | $12,874,961 | $12,874,961 | $12,874,961 |
| | **$19,724,461** | **$25,066,860** | **$24,342,926** | **$215,982,401** | **$285,116,648** | **$153,650,358** |

Notes:

(1) Represents annual management fee payable to DIV.

(2) Represents minimum annual rental payments under rental contracts now accounted for as right-of-use obligations. Variable payment changes due to rent deferrals have been factored in.

(3) Represents scheduled principal payments for 2021 plus the deferred payments from March, April, and May 2020.

(4) Represents MLC's estimated obligation to restore leased facilities to their original condition at the end of the lease terms. The full amount of this obligation has been recorded as a recoverable asset from the franchisee on the statement of financial position.

### *Demand Facility and Guarantee*

On March 5, 2021, MLC entered into a new term sheet with its lender, the Bank of Montreal. The new term sheet provides MLC with a demand, revolving credit facility, a non-revolving demand loan and a letter of credit facility. To manage cash flow during these challenging economic times, MLC amended the term sheet to defer principal payments on the term facility for the months of March, April, and May 2020, all to be repaid at loan maturity in December 2021. MLC was in compliance with all financial covenants as of March 31, 2021.

**Related Party Transactions**

MLC is related to Graybar Investments Limited Partnership ("Graybar") by virtue of common officers and directors as well as some common limited partners. MLC earns franchise royalties and licence fees from stores owned by Graybar and receives marketing fees to administer advertising and promotional programs. Transactions with related parties are as follows:

| | Q1, 2021 | Q1, 2020 |
|---|---|---|
| Common cost recovered | $28,107 | $27,946 |
| Franchise royalties received | $5,540 | $15,869 |
| Marketing fees received | $2,158 | $9,837 |
| License fees received | $5,000 | $27,500 |
| | **$40,805** | **$81,152** |

All related party transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

**Accounting Estimates**

The preparation of MLC's financial statements in accordance with IFRS requires estimates and judgments to be made that affect the reported amounts of assets and liabilities, earnings and expenses and related disclosures. These estimates are based on historical experience, knowledge and assumptions that are believed to be reasonable under the circumstances.

MLC believes that the following selected accounting policy is critical to understanding the estimates, assumptions and uncertainties that affect the amounts reported and disclosed in the financial statements and related notes:

***Estimate - Provisions for Decommissioning Obligations***

MLC records a decommissioning obligation which represents the estimated costs of restoring certain leased facilities to their original condition at the end of the lease terms. A corresponding recoverable balance is recognized representing the amount to be recovered from the franchisees under the sub-lease agreement as any cost incurred by MLC is reimbursed by franchisees. If a franchisee is unable to satisfy their obligation under the related sub-lease for the location, MLC would be liable for the obligation and this would impact the financial performance accordingly.

The value of the obligation is determined using known performance obligations of the related leases and an estimate of the associated cost. The costs are estimated using actual costs incurred in the past, supplier quotes and management knowledge of current construction costs. The opening and closing of stores as well as significant changes to costs for decommissioning stores would all impact the calculation and may result in a material change over accounting periods.