

# DIVERSIFIED

DIV

ROYALTY CORP.

## Diversified Royalty Corp. Announces First Quarter 2016 Results

For Immediate Release – not for distribution to US news wire services or for US dissemination

Vancouver BC, May 16, 2016 – Diversified Royalty Corp. (TSX: DIV) (the “Company” or “DIV”) is pleased to announce its financial results for the three months ended March 31, 2016 (“First Quarter”). A copy of this news release and DIV’s unaudited condensed consolidated interim financial statements and related Management’s Discussion and Analysis of DIV are available on SEDAR at [www.sedar.com](http://www.sedar.com) and on DIV’s website at [www.diversifiedroyaltycorp.com](http://www.diversifiedroyaltycorp.com).

### First Quarter Results

In the First Quarter, DIV generated \$7.0 million of royalty revenue and management fees. Revenues of \$3.2 million were generated from Mr. Lube Canada Limited Partnership (“Mr. Lube”), \$2.9 million were generated from Franworks Franchise Corp. (“Franworks”) and \$0.9 million were generated from Sutton Group Realty Services Ltd. (“Sutton”).

#### *Mr. Lube*

The same-store-sales-growth (“SSSG”) of the 117 Mr. Lube flagship stores in the royalty pool was 7.0% for the First Quarter. Mr. Lube’s strong First Quarter SSSG was due to a combination of a late winter season pushing some sales from the fourth quarter of 2015 into the First Quarter, the shift in timing of key marketing campaigns and continued overall strong business execution.

#### *Franworks*

The SSSG of the 82 Franworks restaurants in the royalty pool for the First Quarter was minus 3.8% in Canadian dollars, which is equivalent to approximately a \$110,000 decrease in royalty income to DIV in the First Quarter (excluding the impact of translating U.S. sales into Canadian dollars, the estimated SSSG was minus 5.9%). SSSG results for Franworks continue to be challenged by current economic conditions in Alberta and other prairie provinces. Franworks’ Original Joe’s and State and Main stores generated positive SSSG in British Columbia and Ontario while the US Elephant & Castle stores benefitted from the US dollar.

#### *Sutton*

Sutton’s fixed royalty increases at a contractual rate of 2% per year with the first increase effective July 1, 2016. From DIV’s perspective, this annual contractual royalty rate increase effectively represents 2% SSSG.

### *First Quarter Commentary*

Sean Morrison, President and Chief Executive Officer of DIV stated, “Mr. Lube’s strong positive First Quarter SSSG and Sutton’s fixed royalty offset Franworks’ negative SSSG. Overall, DIV’s weighted average First Quarter SSSG, in Canadian dollars, were approximately 1.8%. The First Quarter is seasonally the lowest royalty revenue quarter for Franworks and Mr. Lube, explaining the 105.8% payout ratio for the First Quarter while weighted average portfolio SSSG was positive. Net of the Company’s dividend reinvestment plan, the payout ratio on a cash basis was 100.7%.”

#### *Distributable Cash*

In the First Quarter of 2016, distributable cash was \$5.95 million (\$0.0526 per share) compared to \$2.32 million (\$0.0338 per share) in the first quarter of 2015. The increase was driven by the additional royalty income generated from the Sutton and Mr. Lube royalty acquisitions completed in mid-2015.

### *Litigation Update*

During the First Quarter, the Company incurred additional expenses related to the reimbursement of John Bennett's legal costs as part of his criminal defense. As previously disclosed, Mr. Bennett was tried between February 22, 2016 and March 16, 2016. On March 16, 2016, the jury returned a guilty verdict on both counts against him (conspiracy to commit fraud and major fraud against the United States). Upon learning of the guilty verdict, the Company brought an urgent motion to have the interim order set aside; on April 4, 2016, the Ontario court found that the guilty verdict was still subject to confirmation by the trial judge in the United States, with the result that the interim order should remain in place at this time. The Company sought leave to appeal this decision and brought an urgent motion for another temporary stay of the interim order pending the result of the motion for leave to appeal, but the temporary stay was denied on April 11, 2016.

In light of these events, the Company has accrued the invoices submitted by Mr. Bennett relating to his legal fees up to April 29, 2016 in the First Quarter results and is aware that additional costs for legal work up to May 28, 2016 (30 days prior to Mr. Bennett's sentencing date of June 27, 2016) will be incurred and payable by the Company.

If the trial judge in the United States confirms the guilty verdict and convicts Mr. Bennett, DIV will seek to have the interim order set aside. If the interim order is set aside, the Company expects that its insurance underwriter will request a reimbursement for all amounts previously advanced by the insurer to Mr. Bennett (approximately USD\$4.9 million).

### *Outlook*

#### Franworks

DIV expects continued weakness in consumer discretionary spending to impact Franworks' 2016 restaurant sales in Alberta and the other prairie provinces, with a resulting negative impact on the SSSG of the restaurants in the Franworks royalty pool. In order to navigate this economically challenging environment, Franworks has embarked on a number of initiatives including menu re-engineering, targeted promotional activities, administrative cost containment (which are having an immediate positive impact on Franworks' EBITDA) and raising additional equity to further capitalize its balance sheet. Franworks should benefit in 2016 from a full year's performance of the six restaurants opened in 2015 as well as the six new restaurants opened in the First Quarter of 2016. Franworks has four additional restaurants under development that are currently expected to open by September 30<sup>th</sup>.

#### Mr. Lube

Mr. Lube's strong First Quarter SSSG are expected to taper slightly in the balance of 2016, towards its historical average as the First Quarter was exceptionally strong due to weather and the timing of key marketing programs. DIV expects Mr. Lube to continue its 16 year history of positive SSSG performance in 2016.

#### Sutton

Under its new leadership, Sutton is opening new offices, adding new agents and investing in technological innovation for its agents (new mobile apps and an online resource center) to help them manage and grow their businesses. DIV expects Sutton to have another solid year in 2016.

#### Go Forward

"The Company looks forward to getting the legacy litigation matters settled so that we can focus on our business strategy of acquiring new royalty opportunities", said DIV's President and CEO Sean Morrison.

## About Diversified Royalty Corp.

DIV is a multi-royalty corporation, engaged in the business of acquiring top-line royalties from well-managed multi-location businesses and franchisors in North America. DIV's objective is to acquire predictable, growing royalty streams from a diverse group of multi-location businesses and franchisors.

DIV currently owns the Franworks, Sutton, and Mr. Lube trademarks. Franworks operates 96 mid-tier casual neighborhood pub restaurants under the Original Joe's, State & Main, and Elephant & Castle brands with 90 locations across Canada and 6 locations in the US and generates approximately \$225 million of gross sales annually. Sutton is among the leading residential real estate brokerage franchisor businesses in Canada with approximately 7,900 agents and 200 offices across Canada. Mr. Lube is the leading quick lube service business in Canada with 169 locations across Canada and approximately \$200 million of annual system sales.

DIV is currently paying a dividend and expects to increase cash flow per share by making accretive royalty purchases and through the growth of purchased royalties. DIV expects to pay a predictable and stable dividend to shareholders and increase the dividend as cash flow per share increases allow.

## **Forward Looking Statements**

*Certain statements contained in this news release may constitute forward-looking statements which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "intend", "may", "will", "project", "should", "believe", "confident", "plan" and "intends" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Specifically, forward-looking statements in this news release include, but are not limited to, statements made in relation to: additional legal expenses that will be incurred by Mr. Bennett and payable by DIV; DIV's intention to have the interim order set aside if the trial judge convicts Mr. Bennett; the expectation that DIV's insurance underwriter will request reimbursement for all amounts advanced to Mr. Bennett; DIV's expectation that Franworks will continue to experience negative impacts on its restaurant sales and SSSG in Alberta and other prairie provinces; the expected benefits to Franworks from the restaurants it opened in the First Quarter and the additional restaurants it currently expects to open by September 30, 2016; DIV's expectations with respect to Mr. Lube's SSSG for the remainder of 2016; DIV's expectations for Sutton's performance for the remainder of 2016; the ability to pay a predictable and stable dividend to shareholders; and DIV's corporate objectives. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events, performance, or achievements of DIV to differ materially from those anticipated or implied in such forward-looking statements. DIV believes that the expectations reflected in these forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct. In particular, there can be no assurance that: the trial judge will convict Mr. Bennett; the interim order will be set aside if Mr. Bennett is convicted;; that Franworks will realize the expected benefits, or any benefits, from the restaurants it opened in the First Quarter and the additional restaurants it currently expects to open by September 30, 2016; Mr. Lube continue to have positive SSSG in 2016; Mr. Lube's, Franworks' or Sutton's performance for the remainder of 2016 will be consistent with DIV's current expectations; DIV will be able to make monthly dividend payments to the holders of its common shares; or achieve any of its corporate objectives. Given these uncertainties, readers are cautioned that forward-looking statements included in this news release are not guarantees of future performance, and such forward-looking statements should not be unduly relied upon. These statements speak only as of the date of this news release. DIV undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by law.*

*In formulating the forward-looking statements contained herein, management has assumed that business and economic conditions affecting DIV and its royalty partners will continue substantially in the ordinary course, including without limitation with respect to general industry conditions, general levels of economic activity and regulations. These assumptions, although considered reasonable by management at the time of preparation, may prove to be incorrect.*

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*All of the forward-looking statements made in this news release are qualified by these cautionary statements and other cautionary statements or factors contained herein, and there can be no assurance that the actual results or developments will be realized or, even if substantially realized, that they will have the expected consequences to, or effects on, DIV.*

**THE TORONTO STOCK EXCHANGE HAS NOT REVIEWED AND DOES NOT ACCEPT RESPONSIBILITY FOR THE ADEQUACY OR THE ACCURACY OF THIS RELEASE.**

## Additional Information

Additional information relating to the Company and other public filings are available on SEDAR at [www.sedar.com](http://www.sedar.com).

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