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ROYALTY CORP.

Diversified Royalty Corp. Announces Second Quarter 2018 Results

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

Vancouver, BC, August 9, 2018 – Diversified Royalty Corp. (TSX: DIV and DIV.DB) (the "Corporation" or "DIV") is pleased to announce its financial results for the three months ended June 30, 2018 ("Q2 2018") and six months ended June 30, 2018.

Highlights

- Revenues of $6.8 million for Q2 2018 and $12.8 million for the six months ended June 30, 2018.
- Mr. Lube royalty rate on non-tire sales at flagship locations increased from 6.95% to 7.45% on May 1, 2018.
- Mr. Lube royalty pool increased from 117 to 118 locations on May 1, 2018.

Second Quarter and Year-To-Date Results

In Q2 2018, DIV generated $6.8 million of royalty revenue and management fees compared to $4.5 million in the second quarter of 2017. Revenues of $3.8 million were generated from Mr. Lube Canada Limited Partnership ("Mr. Lube"), $1.0 million from Sutton Group Realty Services Ltd. ("Sutton"), and $2.0 million from the AIR MILES® licenses.

For the six months ended June 30, 2018, DIV generated $12.8 million of royalty revenue and management fees compared to $8.7 million in the prior year. The increase in revenue was driven by the incremental revenue generated from the AIR MILES® licenses, the increase in the Mr. Lube royalty rate, the net addition of one Mr. Lube location to the Mr. Lube royalty pool, positive same-store-sales growth ("SSSG") at Mr. Lube, and the contractual 2.0% increase in the Sutton royalty rate effective July 1st of each year.

SSSG for the Mr. Lube stores in the royalty pool was 3.2% in Q2 2018 and 3.8% for the six months ended June 30, 2018. Sutton's fixed royalty increases at a contractual rate of 2% per year, which effectively represents 2% SSSG. According to Alliance Data Systems Inc.'s ("ADS") news release dated July 19, 2018, the number of AIR MILES® reward miles issued increased by 2% in Q2 2018 and ADS is forecasting growth in the number of AIR MILES® reward miles issued for the remainder of 2018.

ADS also announced in its news release dated July 30, 2018 that Samsung Electronics Canada Inc. has entered into an agreement to issue AIR MILES® reward miles to consumers in Canada when they use their AIR MILES® collector cards via Samsung Pay. This is a new and innovative way for collectors to earn AIR MILES® reward miles and enables the AIR MILES® program to accelerate the issuance of AIR MILES® reward miles to a growing segment of consumers interested in e-wallet transactions.

Second Quarter Commentary

Sean Morrison, President and Chief Executive Officer of DIV stated, "We are pleased with Mr. Lube's continued strong performance, and are encouraged by the positive trends of collector and sponsor engagement in the AIR MILES Program."

Mr. Morrison continued, “We remain disciplined in pursuing and evaluating royalty acquisition opportunities. Recently, the Board formed an Investment Committee to facilitate in the review of proposed acquisitions and financing arrangements of DIV.”

Distributable Cash

In Q2 2018, distributable cash was $5.2 million ($0.0488 per share) compared to $3.8 million ($0.0359 per share) in the second quarter of 2017. For the six months ended June 30, 2018, distributable cash was $9.8 million ($0.0915 per share) compared to $7.2 million ($0.0684 per share) in the prior year. The increase was primarily due to the incremental royalty income driven by the acquisition of the AIR MILES® licenses on August 25, 2017. The increase was partially offset by higher interest expense related to the convertible debentures issued on November 7, 2017, the $17.4 million term loan facility drawn on September 6, 2017 associated with the acquisition of the AIR MILES® licenses, and an increase of $7.0 million to ML Royalties Limited Partnership’s term loan facility on May 1, 2018 in connection with the increase in the Mr. Lube royalty rate and the net addition of one location to the Mr. Lube royalty pool.

In Q2 2018, dividends declared exceeded distributable cash by $0.7 million, which resulted in a payout ratio of 114.0%. For the six months ended June 30, 2018, dividends declared exceeded distributable cash by $2.1 million, which resulted in a payout ratio of 121.6%. However, the Corporation has a dividend reinvestment plan that allows the dividends to be settled through a reinvestment in the Corporation’s shares at the election of the shareholder. As a result, the payout ratio on a cash basis was 100.9% in Q2 2018 and 107.1% for the six months ended June 30, 2018. The shortfall in distributable cash was funded by the proceeds received from the sale of the trademarks and rights related to the Franworks Franchise Corp. business (the “FW Rights”) in November 2016.

The Corporation expects the payout ratio for the 2018 fiscal year, excluding the impact of the dividend reinvestment plan, to be in the range of 110% - 115% (on a cash basis, in the range of 100% - 105%), after taking into account the Mr. Lube royalty rate increase and the net addition to the Mr. Lube royalty pool.

The Corporation intends to use the remaining proceeds from the sale of the FW Rights as well as the proceeds from the convertible debenture offering to fund future royalty acquisitions, with the intention of achieving a payout ratio that approximates 100% over time. The Corporation expects the payout ratio to remain over 100% until such time as further royalty acquisitions are completed and excess cash has been deployed.

Net Income

Net income for Q2 2018 was $3.0 million, compared to net income of $2.7 million in the second quarter of 2017. Net income for the six months ended June 30, 2018 was $5.7 million, compared to net income of 5.0 million in the prior year. The increase in net income was primarily due to higher income from operations related to the acquisition of the AIR MILES® licenses, offset by higher interest expense and income taxes.

<u>Resignation of Sutton’s President and CEO</u>

Drew Keddy has resigned as President and CEO of Sutton effective August 10, 2018. Mr. Keddy has been President and CEO of Sutton for three years. Sutton has advised that Rick Taron, Vice President of Operations at Sutton, will manage Sutton until a new President and CEO is hired. Mr. Taron has been with Sutton for over 12 years.

Sean Morrison stated, “I would like to personally thank Drew for his involvement with Sutton, from assisting with DIV’s due diligence of Sutton for the royalty transaction to leading Sutton as President and CEO for the last three years. Drew leaves Sutton in good financial condition with royalty coverage for the six months ended June 30, 2018 of greater than 40% and debt free. DIV looks forward to working with the owners of Sutton to find a new President and CEO.”

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 Sutton, Mr. Lube and AIR MILES® trademarks in Canada. Sutton is among the leading residential real estate brokerage franchisor businesses in Canada with over 200 offices across Canada. Mr. Lube is the leading quick lube service business in Canada with 174 locations across Canada and over $225 million of annual system sales. AIR MILES® is Canada's largest coalition loyalty program with over 200 leading brand-name sponsors; approximately two-thirds of Canadian households actively participate in the AIR MILES® Program.

DIV 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 information" or "financial outlook" within the meaning of applicable securities laws that 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 information or financial outlook. 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 information and financial outlook, although not all forward-looking information and financial outlook contain these identifying words. Specifically, forward-looking information and financial outlook in this news release include, but are not limited to, statements made in relation to: ADS's forecast of growth in AIR MILES® issued over the remainder of 2018; ADS's expected growth in AIR MILES® issued via Samsung Pay; DIV's pursuit of royalty acquisition opportunities; DIV's ability to pay a predictable and stable dividend to shareholders; DIV's expected payout ratio for the 2018 fiscal year; DIV's intention to use the remaining proceeds from the sale of the FW Rights as well as the proceeds from the convertible debenture offering to fund future royalty acquisitions, with the 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; Sutton's appointment of a new President and CEO; 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 information and financial outlook. DIV believes that the expectations reflected in the forward-looking information and financial outlook 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 number of AIR MILES® issued will grow over the remainder of 2018 or through Samsung Pay; DIV will use the net proceeds of the convertible debenture offering and/or the remaining proceeds from the sale of the FW Rights to fund future royalty acquisitions, or the timing thereof; DIV will be successful in identifying or completing any royalty acquisition opportunities; DIV will be able to make monthly dividend payments to the holders of its common shares; the payout ratio for the 2018 fiscal year will align with management's current expectations; DIV will achieve a payout ratio that approximates 100% over time; DIV's payout ratio will remain over 100% until such time as further royalty acquisitions are completed and all excess cash has been deployed; Sutton will appoint a new President and CEO; or DIV will achieve any of its corporate objectives. Given these uncertainties, readers are cautioned that forward-looking information and financial outlook included in this news release are not guarantees of future performance, and such forward-looking information and financial outlook should not be unduly relied upon. More information about the risks and uncertainties affecting DIV's business and the businesses of its royalty partners can be found in the "Risk Factors" section of its Annual Information Form dated March 28, 2018, which is available under DIV's profile on SEDAR at www.sedar.com.

In formulating the forward-looking information and financial outlook 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.

To the extent any forward-looking information or statements in this presentation constitute a "financial outlook" within the meaning of securities laws, such information is being provided investors with timely disclosure of material financial information with respect to the expected financial performance of the Corporation and its royalty partners prior to the completion of year end audits.

All of the forward-looking information and financial outlook disclosed in this news release is 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 it will have the expected consequences to, or effects on, DIV. The forward-looking information and financial outlook included in this news release is made as of the date of this news release and DIV assumes no obligation to publicly update or revise such information to reflect new events or circumstances, except as may be required by applicable law.

DIV notes that the financial results reported in this news release for the three and six months ended June 30, 2018 are consistent with the preliminary results for such period reported in DIV's news release dated July 19, 2018.

Non-IFRS Financial Measures

Management believes that disclosing certain non-IFRS financial measures provides readers with important information regarding the Corporation'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 Corporation 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 cash flows from operating activities as determined in accordance with IFRS.

"Distributable Cash", "Same Store Sales Growth" and "payout ratio" are used as non-IFRS measures in this press release. For further details, see the "Description of Non-IFRS and Additional IFRS Measures" in the Corporation's management's discussion and analysis for the three and six months ended June 30, 2018, a copy of which is available on SEDAR at www.sedar.com.

Third Party Information

This news release 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 news release nor ascertained the underlying assumptions relied upon by such sources.

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 Corporation and other public filings, is available on SEDAR at www.sedar.com.

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