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DIV

ROYALTY CORP.

Diversified Royalty Corp. Announces Fourth Quarter and Year End 2018 Results

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

Vancouver, BC, March 11, 2019 – Diversified Royalty Corp. (TSX: DIV and DIV.DB) (the "Corporation" or "DIV") is pleased to announce its financial results for the three months ended December 31, 2018 ("Q4 2018") and year ended December 31, 2018.

Highlights

- Revenues of $7.2 million for Q4 2018 and $26.7 million for the year ended December 31, 2018
- Mr. Lube royalty rate on non-tire sales 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

Fourth Quarter and Year Results

In Q4 2018, DIV generated $7.2 million of royalty revenue and management fees compared to $6.9 million in the three months ended December 31, 2017 ("Q4 2017"). Revenues of $4.1 million were generated from Mr. Lube Canada Limited Partnership ("Mr. Lube"), $1.0 million from Sutton Group Realty Services Ltd. ("Sutton"), and $2.1 million from the AIR MILES® licenses. Higher revenues were due to the increase in the Mr. Lube royalty rate and the net addition of one Mr. Lube location to the Mr. Lube royalty pool on May 1, 2018, partially offset by $0.1 million lower royalty revenue from the AIR MILES® licenses.

For the year ended December 31, 2018, DIV generated $26.7 million of royalty revenue and management fees compared to $20.9 million in the prior year. The increase in revenue was driven by the first full year of 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 3.0% in Q4 2018 and 3.0% for the year ended December 31, 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 February 7, 2019, the number of AIR MILES® reward miles issued decreased by 4.7% in Q4 2018 and was flat in 2018.

Fourth Quarter Commentary

Sean Morrison, President and Chief Executive Officer of DIV stated, "Our 2018 results reflected the first full year of royalty income from the AIR MILES licenses, the May 1st increase in the Mr. Lube royalty rate and the one net new store addition to the Mr. Lube royalty pool. Furthermore, we are pleased to have dealt with the final legacy issue related to Bennett Environmental Inc. having agreed with Sevenson to settle the outstanding litigation claim. DIV has $78.7 million of cash on hand and is well positioned to pursue trademark acquisitions and enter into long term royalty agreements with high-quality businesses."

Distributable Cash

In Q4 2018, distributable cash was $5.6 million ($0.0517 per share) and was relatively consistent with Q4 2017 distributable cash of $5.6 million ($0.0522 per share). For the year ended December 31, 2018, distributable cash was $20.5 million ($0.1911 per share) compared to $17.3 million ($0.1631 per share) in the prior year. The increase was primarily due to the incremental royalty income driven by the full-year inclusion of revenues from the AIR MILES® licenses that were acquired on August 25, 2017, as well as 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 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 Q4 2018, dividends declared exceeded distributable cash by $0.4 million, which resulted in a payout ratio of 107.7%. 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. On a cash basis, the payout ratio was 96.8% in Q4 2018. As a result, there was no cash shortfall in making dividend payments in Q4 2018. For the year ended December 31, 2018, dividends declared exceeded distributable cash by $3.4 million, which resulted in a payout ratio of 116.4%. On a cash basis, the payout ratio was 103.5% for the year ended December 31, 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 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.

Settlement of Sevenson Litigation

In Q4 2018, in an effort to avoid the expense and uncertainty of further litigation, and with no admission of fault by any party, the Corporation and Sevenson Environmental Services Inc. ("Sevenson"), entered into a settlement agreement. Under the settlement agreement, both parties surrendered and released all claims against each party. As consideration for the settlement agreement, the Corporation agreed to make a payment totalling US$1.86 million (CAD$2.47 million). This was recorded as a litigation expense for the year ended December 31, 2018.

Net Income

Net income for Q4 2018 was $1.1 million, compared to net income of $3.5 million in Q4 2017. The decrease in net income for Q4 2018 was primarily due to the Sevenson litigation settlement, the fair value adjustment on interest rate swaps and higher interest expense partially offset by higher revenues and lower income tax expense.

Net income for the year ended December 31, 2018 was $10.1 million, compared to net income of $11.6 million in the prior year. The decrease in net income was primarily due to the Sevenson litigation settlement, higher interest expense and the fair value adjustment in interest rate swaps. The decrease was partially offset by the growth in revenues.

<u>About Diversified Royalty Corp.</u>

DIV is a multi-royalty corporation, engaged in the business of acquiring 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 177 locations across Canada and over $235 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" 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. 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, although not all forward-looking information contains these identifying words. Specifically, forward-looking information in this news release include, but are not limited to, statements made in relation to: DIV's intention to pursue trademark acquisitions and enter into long term royalty agreements with high-quality businesses; DIV's ability to pay a predictable and stable dividend to shareholders; 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 and excess cash has been deployed; 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. DIV believes that the expectations reflected in the forward-looking information are reasonable but no assurance can be given that these expectations will prove to be correct. In particular there can be no assurance that: 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; 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; or DIV will achieve any of its corporate objectives. Given these uncertainties, readers are cautioned that forward-looking information included in this news release are not guarantees of future performance, and such forward-looking information 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 11, 2019, which is available under DIV's profile on SEDAR at www.sedar.com.

In formulating the forward-looking information 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 and that DIV will be successful in identifying and completing additional royalty acquisitions. These assumptions, although considered reasonable by management at the time of preparation, may prove to be incorrect.

All of the forward-looking information 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 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 months and year ended December 31, 2018 are consistent with the preliminary results for such period reported in DIV's news release dated February 7, 2019.

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 news 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 months and year ended December 31, 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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