Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and nine months ended September 30, 2021 and 2020

(Unaudited)

DIVERSIFIED ROYALTY CORP.
Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Note	September 30, 2021	December 31, 2020
Assets			
Current assets:			
Cash		$ 7,164	$ 9,218
Royalties and management fees receivable	5	4,654	4,293
Amounts receivable		19	15
Prepaid expenses and other		372	342
		12,209	13,868
Interest rate swap assets	9	381	-
Right-of-use asset and other	11	917	-
Investment in NND LP	6	43,543	43,627
Intangible assets	7	318,871	300,901
		$ 375,921	$ 358,396
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 2,616	$ 1,710
Interest rate swap liabilities	9	1,520	1,212
Income tax payable	12	1,288	755
		5,424	3,677
Long-term bank loans, net of deferred financing charges	8	109,697	98,557
Convertible debentures		55,601	54,535
Promissory note		3,215	3,108
Exchangeable Units and other	7, 10	1,990	878
Interest rate swap liabilities	9	203	1,158
Lease obligation	11	741	-
Deferred income tax liability	12	9,952	6,810
Shareholders' equity:			
Share capital		201,141	198,570
Contributed surplus		39,456	39,425
Equity component of convertible debentures		2,938	2,938
Accumulated deficit		(54,437)	(51,260)
		189,098	189,673
		$ 375,921	$ 358,396

Nature of operations (note 1)
Subsequent event (note 18)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.
Condensed Consolidated Interim Statements of Net Income (Loss) and Comprehensive Income (Loss)
(Unaudited)
(Expressed in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Royalty income	4	$ 9,745	$ 7,912	$ 26,307	$ 21,270
Management fees		116	111	338	311
		9,861	8,023	26,645	21,581
Expenses					
Salaries and benefits		483	339	1,372	1,116
Share-based compensation	13	326	383	775	1,094
General and administration		185	116	544	464
Professional fees		65	124	394	391
Impairment loss		-	-	-	19,841
		1,059	962	3,085	22,906
Income (loss) from operations		8,802	7,061	23,560	(1,325)
Interest expense on credit facilities		(1,880)	(1,727)	(5,452)	(5,285)
Other finance (costs) income, net	15	(482)	(450)	(1,392)	75
Fair value adjustment on financial instruments	6, 9, 10	1,777	(5,997)	4,434	(6,395)
Income (loss) before income taxes		8,217	(1,113)	21,150	(12,930)
Income tax expense (recovery)	12	2,274	(231)	5,862	(3,198)
Net income (loss) and comprehensive income (loss)		$ 5,943	$ (882)	$ 15,288	$ (9,732)
Weighted average number of shares outstanding					
Basic		122,038,948	120,836,096	121,702,986	118,129,880
Diluted		135,698,329	120,836,096	122,595,464	118,129,880
Income (loss) per share					
Basic	14	$ 0.05	$ (0.01)	$ 0.13	$ (0.08)
Diluted	14	0.05	(0.01)	0.12	(0.08)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.
Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in thousands of Canadian dollars, except for share amounts)

	Common shares	Share capital	Contributed surplus	Equity component of Convertible debentures	Accumulated deficit	Total equity
Balance, December 31, 2020	121,187,757	$ 198,570	$ 39,425	$ 2,938	$ (51,260)	$189,673
Common shares issued on DRIP	874,684	2,202	-	-	-	2,202
Restricted share units settled	188,040	369	(648)	-	-	(279)
Share-based compensation	-	-	679	-	-	679
Dividends declared	-	-	-	-	(18,465)	(18,465)
Comprehensive income	-	-	-	-	15,288	15,288
Balance, September 30, 2021	122,250,481	$ 201,141	$ 39,456	$ 2,938	$ (54,437)	$189,098

	Common shares	Share capital	Contributed surplus	Equity component of Convertible debentures	Accumulated deficit	Total equity
Balance, December 31, 2019	109,501,916	$ 163,174	$ 40,293	$ 2,938	$ (17,710)	$188,695
Common shares issued on public offering	10,810,000	33,038	-	-	-	33,038
Common shares issued on DRIP	465,780	1,012	-	-	-	1,012
Restricted share units settled	90,740	274	(369)	-	-	(95)
Share-based compensation	-	-	1,094	-	-	1,094
Dividends declared	-	-	-	-	(18,615)	(18,615)
Comprehensive loss	-	-	-	-	(9,732)	(9,732)
Balance, September 30, 2020	120,868,436	$ 197,498	$ 41,018	$ 2,938	$ (46,057)	$195,397

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.
Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in thousands of Canadian dollars)

	Note	Nine months ended September 30, 2021	2020
Cash flows from (used in) operating activities:			
Net income (loss)		$ 15,288	$ (9,732)
Adjustments for:			
Tax expense (recovery)		5,862	(3,198)
Impairment loss		-	19,841
Depreciation expense		66	-
Share-based compensation		775	1,094
Fair value adjustments on financial instruments		(4,434)	6,395
Interest expense on credit facilities		5,452	5,285
Other finance costs (income), net		1,392	(75)
Foreign exchange (loss) gain		-	5
Interest paid		(4,697)	(4,563)
Interest received		22	51
Taxes paid		(2,187)	(1,223)
Distributions received from NND LP		3,668	3,369
Changes in non-cash operating items:			
Royalties and management fees receivable		(361)	284
Amounts receivable		(4)	7
Prepaid expenses and other		(126)	22
Accounts payable and accrued liabilities		(548)	(445)
Net cash from operating activities		20,168	17,117
Cash flows (used in) from financing activities:			
Payment of dividends		(16,263)	(17,603)
Proceeds from issuance of equity		-	34,592
Equity issuance costs		-	(2,129)
Proceeds from issuance of debt		11,400	55,700
Repayment of debt		-	(39,700)
Debt financing costs		(373)	(107)
Payment of lease obligations		(34)	-
Related party receivable		-	3,766
Net cash (used in) from financing activities		(5,270)	34,519
Cash flows used in investing activities:			
Additions to intangible assets	7	(16,712)	(44,321)
Purchase of fixed assets		(240)	-
Net cash (used in) investing activities		(16,952)	(44,321)
Net increase (decrease) in cash		(2,054)	7,315
Cash, beginning of period		9,218	2,968
Cash, end of period		$ 7,164	$ 10,283

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Diversified Royalty Corp. ("DIV") is a company domiciled in Canada and governed by the Business Corporations Act (British Columbia). The condensed consolidated interim financial statements of DIV as at and for the three and nine months ended September 30, 2021 are composed of DIV and its subsidiaries (together referred to as the "Company"). The head office of the Company is located at 330-609 Granville Street, Vancouver, BC, V7Y 1A1. The registered office of the Company is located at the 25th Floor, 700 West Georgia Street, Vancouver, BC V7Y 1B3. The Company's common shares are listed on the Toronto Stock Exchange ("TSX") and traded under the symbol "DIV".

1. Nature of operations:

The current business of DIV is to acquire royalties from well-managed multi-location businesses and franchisors in North America ("Royalty Partners"). The Company's Royalty Partners and the respective license and royalty arrangements are summarized below.

Sutton Group Realty Services Ltd. ("Sutton"): SGRS Royalties Limited Partnership ("SGRS LP") (an entity controlled by the Company), owns the trademarks and certain other intellectual property rights utilized by Sutton in its residential real estate franchise business (the "SGRS Rights"). The Company granted Sutton the licence to use the SGRS Rights in exchange for a royalty payment currently equal to $63.347 per agent per month (the "Sutton Royalty Rate") for the number of agents included in the royalty pool (the "Sutton Royalty Pool").

Mr. Lube Canada Limited Partnership ("Mr. Lube"): ML Royalties Limited Partnership ("ML LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Mr. Lube in its business (the "ML Rights"). The Company granted Mr. Lube the licence to use the ML Rights in exchange for a royalty payment currently equal to 7.95% of non-tire system sales and 2.50% of tire system sales of Mr. Lube locations in the royalty pool (the "Mr. Lube Royalty Pool").

LoyaltyOne Co. ("LoyaltyOne"): AM Royalties Limited Partnership ("AM LP") (a wholly owned subsidiary of the Company) owns the Canadian AIR MILES® trademarks and certain Canadian intellectual property rights (collectively, the "AIR MILES® Rights") used by LoyaltyOne in operating the AIR MILES® reward program in Canada (the "AIR MILES® Program"). In accordance with the terms of two license agreements with LoyaltyOne (collectively the "AIR MILES® Licenses"), LoyaltyOne has an exclusive right to use the AIR MILES® Rights in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Program.

Mr. Mikes Restaurants Corporation ("Mr. Mikes"): MRM Royalties Limited Partnership ("MRM LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Mr. Mikes in its restaurant business (the "MRM Rights"). The Company granted Mr. Mikes the licence to use the MRM Rights in exchange for a royalty payment currently equal to 4.35% of notional system sales of Mr. Mikes locations in the royalty pool (the "Mr. Mikes Royalty Pool").

Nurse Next Door Professional Homecare Services Inc. ("Nurse Next Door"): NND Royalties Limited Partnership ("NND LP") (an entity that is majority-owned by the Company) has legal ownership of the trademarks and certain other intellectual property rights utilized by Nurse Next Door Professional Homecare Services Inc. ("Nurse Next Door") in its premium home care business (the "NND Rights") (note 6). NND LP granted Nurse Next Door the licence to use the NND Rights. The Company, through its ownership of NND LP Class A units, is entitled to receive a cash distribution of $4.8 million per year, which grows at a fixed rate of 2.0% per annum (the "DIV Distribution Entitlement").

Oxford Learning Centres, Inc. ("Oxford"): OX Royalties Limited Partnership ("OX LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Oxford Learning Centres, Inc. ("Oxford") in its supplemental education business (the "Oxford Rights"). The Company granted Oxford the licence to use the Oxford Rights in exchange for a royalty payment currently equal to 7.67% of the gross sales of Oxford locations in the royalty pool (the "Oxford Royalty Pool").

Substantially all of the Company's operating revenues are earned from the receipt of royalties and management fees from its Royalty Partners. Accordingly, the revenues of the Company and its ability to pay dividends to shareholders are dependent on the ongoing ability of its Royalty Partners to generate cash and pay royalties and management fees to the Company.

1. Nature of operations (continued):

COVID-19

Since the onset of the COVID-19 pandemic in March 2020, jurisdictions across Canada have had varying levels of COVID-19 related restrictions in place and many of those restrictions have been modified multiple times in response to the fluctuating number of COVID-19 cases and vaccination levels. The situation remains dynamic and the ultimate duration and magnitude of the impact on the economy, our business and the respective businesses of our Royalty Partners (including their respective franchisees) remains uncertain. Government restrictions, which have included, among others, the temporary closure of non-essential businesses (in most jurisdictions), restrictions on business operations, bans on public gatherings over certain sizes and travel advisories to avoid non-essential travel, may continue or be re-imposed at any time. These measures have triggered significant disruptions to businesses worldwide, including the businesses of DIV's Royalty Partners (including their respective franchisees).

DIV's Royalty Partners (including their respective franchisees) have had, and may continue to have in the months ahead, significant interruptions to their respective businesses in the months ahead, including prolonged periods of low system sales on which certain royalties are based and low revenues on which the Royalty Partner rely to pay royalties to DIV. Certain governments have eased some of the restrictions put in place to fight the COVID-19 pandemic. However, due to a growing concern over COVID-19 variants in recent months, governments may re-impose certain restrictions, and in some cases have already done so. Accordingly, DIV does not know the full extent of the financial impact of such interruptions going forward, the timeline for restoring normal operations for its Royalty Partners (including their respective franchisees) or the potential changes in consumer behaviors as a result of the COVID-19 pandemic. In addition, the rates of recovery for DIV's Royalty Partners have and will continue to be dependent upon, among other things, the availability, effectiveness and the individual take-up rate of vaccines for the COVID-19 virus, government responses, rates of economic recovery, precautionary measures taken by consumers and the rate at which social restrictions are lifted. Recently experienced improvement trends by certain of DIV's Royalty Partners may not continue and may regress, and in certain cases have regressed when COVID-19 related government restrictions have been re-imposed. Certain government support programs which have been helpful to DIV's Royalty Partners, their franchisees and the general population have been terminated or modified, and those remaining government support programs may be terminated or modified at any time. Following the termination of such programs, or the reduction of amounts available under such programs, or other modifications, Royalty Partners and franchisees currently receiving support under those programs may need to find alternative sources of financial support and may make requests for such support from, among other parties, DIV and its Royalty Partners, as applicable. There is also a risk that certain Royalty Partner franchise locations that temporarily close may not reopen, and those that are open may be required to close again in the future as a direct or indirect result of the impacts of COVID-19 and related government restrictions. The ongoing effects of COVID-19 could impact DIV and its Royalty Partners' (as well as their respective franchisees') ability to obtain debt and equity financing, and result in an impairment in the value of the long-lived assets or investments or decreases in revenue or the profitability of DIV's ongoing operations.

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2020.

These condensed consolidated interim financial statements were authorized and approved for issue by the Company's Board of Directors on November 9, 2021.

(Tabular amounts expressed in thousands of Canadian dollars)

2. Basis of preparation (continued):

(b) Basis of measurement:

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgments and key estimates and assumptions are the same as described in the Company's annual financial statements for the year ended December 31, 2020.

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Company's functional currency.

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the same accounting policies as the annual financial statements for the year ended December 31, 2020, except as described below.

IFRS 16, Leases ("IFRS 16"), has a single on-balance sheet lease accounting model for lessees. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognizes 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 right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method.

4. Royalty income:

	Three months ended September 30,		Nine months ended September 30,	
	2021	2020	2021	2020
Mr. Lube	$ 5,268	$ 4,040	$ 13,541	$ 11,019
AIR MILES®	1,650	1,728	4,798	5,086
Sutton	1,026	1,006	3,038	2,321
Oxford	821	696	2,630	1,817
Mr. Mikes	980	442	2,300	1,027
	$ 9,745	$ 7,912	$ 26,307	$ 21,270

For the nine months ended September 30, 2021 and 2020, DIV granted royalty relief to Mr. Mikes in connection with the COVID-19 pandemic, collecting 75% of the contractual royalty amounts for the nine months ended September 30, 2021 and 40% for the nine months ended September 30, 2020. DIV continues to discuss with its lender and Mr. Mikes about whether additional royalty relief is required for subsequent periods. For the nine months ended September 30, 2020, DIV waived 50% of Sutton's March 2020 royalty and management fees. In addition, DIV waived 75% of Sutton's April and May 2020 royalty and management fees.

Effective July 1, 2021, the monthly Sutton Royalty Rate increased from $62.105 per agent to $63.347 per agent.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Royalties and management fees receivable:

	September 30, 2021	December 31, 2020
Mr. Lube	$ 1,820	$ 1,237
AIR MILES®	1,864	2,193
Sutton	369	362
Oxford	318	315
Mr. Mikes	276	179
Nurse Next Door	7	7
	$ 4,654	$ 4,293

6. Investment in NND LP:

The Company's investment in NND LP is a financial instrument measured at fair value. The valuation of the financial instrument includes an estimate of the discounted cash flow receivable from Nurse Next Door and takes into consideration the likelihood of Nurse Next Door exercising the NND Buy-Out Option and the NND Exchange Mechanism. The NND Buy-Out Option and NND Exchange Mechanism are embedded derivatives with a negligible value at September 30, 2021 and December 31, 2020. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.2% (December 31, 2020 – 14.0%). The total fair value of NND LP at September 30, 2021 was $43.5 million (December 31, 2020 - $43.6 million) and a fair value gain of $3.6 million was recorded during the nine months ended September 30, 2021 (September 30, 2020 – fair value loss of $4.7 million). A one percentage point increase in the discount rate would decrease the fair value by $3.1 million. A one percentage point decrease in the discount rate would increase the fair value by $3.7 million.

For the nine months ended September 30, 2021 and 2020, the DIV Distribution Entitlement was $3.7 million.

7. Intangible assets:

	ML Rights	AIR MILES®	SGRS Rights	MRM Rights	Oxford Rights	Total
Balance, December 31, 2020	$ 152,988	$ 53,977	$ 32,273	$ 23,369	$ 38,294	$ 300,901
Additions	17,970	-	-	-	-	17,970
Balance, September 30, 2021	$ 170,958	$ 53,977	$ 32,273	$ 23,369	$ 38,294	$ 318,871

On November 9, 2020, DIV and Mr. Lube entered into an amendment to the amended and restated limited partnership agreement of ML LP (the "LP Amendment") to confirm the terms on which (i) the Mr. Lube royalty rate on non-tire sales will be increased by 0.5% from 7.45% to 7.95% effective May 1, 2021, and (ii) the Mr. Lube Royalty Pool will be adjusted to include royalties from 13 additional Mr. Lube locations effective May 1, 2021.

The increase of the Mr. Lube royalty rate from 7.45% to 7.95% on non-tire sales on May 1, 2021 represents the second such royalty rate increase. The royalty rate on tire sales remains unchanged at 2.50%. The LP Amendment provides that the consideration payable to Mr. Lube for the Mr. Lube royalty rate increase on May 1, 2021 was to be calculated based on a 7.25x multiple of the incremental annual royalty revenue, which consideration was required to be paid in cash. The actual amount of the consideration for the increase to the Mr. Lube royalty rate was $8.3 million, which was paid to Mr. Lube in cash on May 1, 2021 and recorded as an addition to intangible assets.

(Tabular amounts expressed in thousands of Canadian dollars)

7. Intangible assets (continued):

The LP Amendment also provides that the consideration payable to Mr. Lube for the addition of the 13 locations to the Mr. Lube Royalty Pool on May 1, 2021 was to be calculated based on a 7.25x multiple of the incremental annual royalty revenue to be added to the Mr. Lube Royalty Pool from such additions, which consideration was required to be paid in cash. The initial consideration for the addition of the 13 locations to the Mr. Lube Royalty Pool was determined to be $7.7 million, representing 80% of the total current estimated consideration of $9.6 million. The total current estimated consideration of $9.6 million was recorded as an addition to intangible assets. The remaining consideration payable for the net additional royalty revenue related to 7 of the 13 locations will be paid to Mr. Lube on May 1, 2022 and will be adjusted to reflect the actual system sales of these locations for the year ending December 31, 2021. The remaining consideration payable for the net additional royalty revenue related to 6 of the 13 locations will be paid to Mr. Lube on May 1, 2023 and will be adjusted to reflect the actual system sales of these locations for the year ending December 31, 2022. Changes in the fair value of the estimated remaining consideration payable to Mr. Lube will be recorded as a fair value adjustment on financial instruments in the statement of net income. As at September 30, 2021, the remaining consideration payable to Mr. Lube was estimated to be $1.9 million, of which $0.9 million was recorded as in accounts payable and accrued liabilities and $1.0 million was recorded in exchangeable units and other.

On May 1, 2019, the Mr. Lube Royalty Pool was adjusted to include the royalties from four new Mr. Lube locations. The initial consideration previously paid to Mr. Lube was $2.7 million, which represented 80% of the total estimated consideration based on the forecast system sales of these four locations for the 2019 fiscal year. In exchange for the addition to the Mr. Lube Royalty Pool, Mr. Lube received the right to exchange Class B LP units of ML LP for common shares of DIV. DIV elected to pay the initial consideration to Mr. Lube in cash. Based on the actual system sales for the year ended December 31, 2019 of the four new locations added to the Mr. Lube Royalty Pool, Mr. Lube was entitled to exchange 357,716 Class B units of ML LP (the “Exchangeable ML Units”) for DIV shares (or cash at DIV’s option). On April 28, 2020, Mr. Lube and DIV entered into an agreement to defer the settlement of the Exchangeable ML Units to May 1, 2021. The actual consideration payable on May 1, 2021 was equal to the lower of: (i) $3.1822 per share and (ii) the weighted average share price of the Company’s shares over the 20 trading days ending on April 26, 2021, the fifth trading day before May 1, 2021, which was determined to be $2.4941 per share. Accordingly, on May 1, 2021, DIV paid Mr. Lube the remaining $0.9 million of cash consideration.

8. Borrowings:

(a) Acquisition facility:

The Company has a $50.0 million undrawn senior secured credit facility (the “Acquisition Facility”) that matures on November 30, 2022. As at September 30, 2021, the Company had $nil outstanding under the Acquisition Facility.

(b) Term loan facilities and operating lines of credit:

As at September 30, 2021, the Company had the following term loan facilities:

Term loan facilities	Interest rate	Maturity date	Face value	Carrying value
ML LP term loan	BA + 2.50%	May 1, 2025	$ 53,000	$ 52,677
AM LP term loan	BA + 1.95%	Sep 30, 2026	17,400	17,246
SGRS LP term loan	BA + 1.95%	Jun 30, 2026	6,300	6,248
MRM LP term loan	BA + 1.95%	Jun 24, 2024	10,300	10,223
NNDH LP term loan	BA + 1.90%	Nov 15, 2024	14,500	14,380
OX LP term loan	BA + 1.95%	Apr 27, 2025	9,000	8,923
			$ 110,500	$ 109,697

(Tabular amounts expressed in thousands of Canadian dollars)

8. Borrowings (continued):

(b) Term loan facilities and operating lines of credit:

As at September 30, 2021, the Company had the following operating lines of credit:

Operating lines of credit	Interest rate	Maturity date		Maximum available		Available for use
ML LP line of credit[1]	Prime + 0.25%	May 1, 2025	$	1,000	$	945
AM LP line of credit	BA + 1.95%	Sep 30, 2026		3,000		3,000
SGRS LP line of credit	BA + 1.95%	Jun 30, 2026		500		500
MRM LP line of credit	Prime + 0.25%	Jun 24, 2024		500		500
OX LP line of credit	Prime + 0.25%	Apr 27, 2025		500		500
			$	5,500	$	5,445

1) ML LP issued a letter of credit for $0.55 million in connection with the Company's head office lease.

On May 1, 2021, in connection with the Mr. Lube royalty rate increase and the addition of 13 stores to the Mr. Lube Royalty pool (note 7), ML LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the ML LP credit facility agreement resulted in an increase to the term loan facility from $41.6 million to $53.0 million, an increase in the interest rate by 0.55%, and an extension of the maturity date from July 31, 2022 to May 1, 2025. On June 11, 2021, SGRS LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the SGRS LP credit facility resulted in a decrease in the interest rate by 0.05% and an extension of the maturity date from June 30, 2022 to June 30, 2026. On September 13, 2021, AM LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the AM LP credit facility resulted in a decrease in the interest rate by 0.30% and an extension of the maturity date from September 6, 2022 to September 30, 2026.

As at September 30, 2021, the Company was in compliance with all financial covenants associated with its Acquisition Facility, term loan facilities and operating lines of credit. In March 2021, AM LP entered into an amended and restated credit agreement with its lender to amend its financial covenant for the first three fiscal quarters of 2021. If AM LP had not entered into such amendment, AM LP would have been in breach of its financial covenant for the quarters ended March 31, 2021, June 30, 2021 and September 30, 2021. In September 2021, MRM LP negotiated a covenant amendment to its credit agreement, which included a suspension to its financial covenants for the quarter ended September 30, 2021. If MRM LP had not entered into such covenant amendment, MRM LP would have been in breach of its financial covenants for the quarter ended September 30, 2021. DIV continues to closely monitor the results of its royalty partners and is in regular discussions with its lending partners about the impact of COVID-19 on its business including covenant relief, which may be required in the months ahead dependent on the future results of several of DIV's royalty partners.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Interest rate swaps:

The following table summarizes the interest rate swap agreements the Company has entered into as of September 30, 2021. The Company recorded a fair value gain of $1.0 million related to the interest rate swaps for the nine months ended September 30, 2021.

	Effective date	Maturity date	Fixed interest rate	Notional amount
ML LP[1]	Aug 13, 2018	Jul 31, 2022	4.72%	34,600
ML LP[1]	Feb 5, 2020	Jul 31, 2022	4.43%	7,000
ML LP	Jul 29, 2022	May 1, 2025	4.25%	39,750
AM LP[2]	Sep 6, 2017	Aug 19, 2022	4.12%	8,700
MRM LP	Jul 25, 2019	Jun 24, 2024	4.05%	10,300
NNDH LP	Feb 12, 2020	Nov 15, 2024	3.98%	7,500
OX LP	Aug 26, 2020	Apr 27, 2025	2.96%	4,500

1) On May 1, 2021 ML LP amended its credit facility agreement, which resulted in an increase to its fixed interest rate by 0.55%.
2) On September 13, 2021 AM LP amended its credit facility agreement, which resulted in a decrease to its fixed interest rate by 0.30%.

10. Exchangeable MRM Units:

The fair value of the Exchangeable MRM Units is determined at the end of each period by multiplying the number of Exchangeable MRM Units held by Mr. Mikes at the end of the period by the closing price of DIV shares on the last business day of the period. As at September 30, 2021, the Exchangeable MRM Units were valued at $1.0 million (December 31, 2020 - $0.8 million) based on the DIV closing share price of $2.77 at period end (December 31, 2020 - $2.38), multiplied by the total number of Exchangeable MRM Units of 355,032.

11. Right-of-use asset and lease obligation:

In December 2020, DIV signed a ten-year lease agreement for its head office and obtained possession in January 2021. Under IFRS 16, DIV recognized a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. During the nine months ended September 30, 2021, the Company recorded $0.1 million as a depreciation expense for the right-of-use asset and a nominal amount as other finance costs on the lease obligation. The Company’s annual fixed lease payments are approximately $0.1 million over the ten-year term of the lease.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Income taxes:

	Three months ended September 30, 2021	Three months ended September 30, 2020	Nine months ended September 30, 2021	Nine months ended September 30, 2020
Deferred tax expense (recovery)	$ 1,121	$ (857)	$ 3,142	$ (4,448)
Current tax expense	1,153	626	2,720	1,250
	$ 2,274	$ (231)	$ 5,862	$ (3,198)

The tax effect of temporary differences that gives rise to the net deferred tax liability are as follows:

	September 30, 2021	December 31, 2020
Intangible assets	$ 231	$ 244
Financing and share issuance costs	121	223
Other	(95)	142
Convertible debentures	(322)	(502)
Intangible assets	(9,887)	(6,917)
Net deferred tax liability	$ (9,952)	$ (6,810)

The deferred tax liability as at September 30, 2021 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately $202.2 million (December 31, 2020 - $211.5 million). In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately $47.1 million at September 30, 2021 (December 31, 2020 - $49.0 million) is allocated to the Company for tax purposes.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share-based compensation:

(a) Restricted share units:

The number of RSUs outstanding is as follows:

	September 30, 2021		
	Number of RSUs		Weighted average grant-date fair value
Balance, beginning of period	499,382	$	2.24
Granted	396,650		2.51
Dividends earned	30,795		2.62
Settled	(333,979)		2.25
Balance, end of period	592,848	$	2.44
Unvested	563,424	$	2.41
Vested	29,424	$	2.97

(b) Share options:

The following table summarizes information relating to outstanding and exercisable options as at September 30, 2021:

	Options outstanding				Options exercisable		
Exercise prices	Number of options	Weighted average remaining life (years)		Weighted average exercise price per share	Number exercisable		Weighted average exercise price per share
$2.52	816,667	4.60	$	2.52	-	$	-
$3.22 - $3.53	2,300,000	1.05	$	3.26	2,300,000	$	3.26
	3,116,667	1.98	$	3.07	2,300,000	$	3.26

On May 6, 2021, the Company granted 816,667 share options having an exercise price of $2.521, which vests over a period of three years and expire on the fifth anniversary of the grant date. The exercise price of the share options was based on the five-day volume weighted average trading price of the Company's common shares on the Toronto Stock Exchange ending on the date prior to the grant date.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Income (loss) per share:

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Income (loss) for the period - basic	$ 5,943	$ (882)	$ 15,288	$ (9,732)
Dilutive adjustment for convertible debentures	551	-	-	-
Income (loss) for the period - diluted	$ 6,494	(882)	$ 15,288	(9,732)
Weighted average number of shares outstanding – basic	122,038,948	120,836,096	121,702,986	118,129,880
Dilutive adjustment for options	28,242	-	-	-
Dilutive adjustment for convertible debentures	12,637,363	-	-	-
Dilutive adjustment for restricted share units	638,744	-	537,446	-
Dilutive adjustment for exchangeable MRM units	355,032	-	355,032	-
Weighted average number of shares outstanding – diluted	135,698,329	120,836,096	122,595,464	118,129,880
Net income (loss) per common share:				
Basic	$ 0.05	$ (0.01)	$ 0.13	$ (0.08)
Diluted	$ 0.05	$ (0.01)	$ 0.12	$ (0.08)

15. Other finance (costs) income, net:

	Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Finance income	$ 3	$ 14	$ 22	$ 51
Foreign exchange (loss) gain	3	(3)	-	5
Distributions paid on Exchangeable MRM Units	-	-	-	(33)
Amortization of deferred financing charges	(214)	(210)	(608)	(610)
Accretion expense and other	(274)	(251)	(806)	662
	$ (482)	$ (450)	$ (1,392)	$ 75

16. Financial instruments:

The Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Company's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.

- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term bank loans approximates their fair value as these facilities bear interest at floating market interest rates. The fair value of the convertible debentures of $57.6 million is measured using Level 1 inputs. The fair value of the Exchangeable MRM Units, Exchangeable ML Units and the interest rate swap liabilities are measured using Level 2 inputs. The fair value of the investment in NND LP is measured using Level 3 inputs (note 6).

The Company monitors its consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due. In addition, the Company manages its liquidity risk by preparing rolling cash flow forecasts, taking into consideration various scenarios and assumptions, monitoring the business operations of its royalty partners, and monitoring compliance with the terms of financing arrangements. Given the economic uncertainty facing DIV and its royalty partners as a result of the

(Tabular amounts expressed in thousands of Canadian dollars)

16. Financial instruments (Continued):

COVID-19 pandemic, the Company decreased the monthly dividend from $0.01958 per share ($0.235 per share on an annualized basis) to $0.01667 per share ($0.20 per share on an annualized basis) effective with the dividend declared in the month of April 2020. On July 29, 2021, the Board of Directors approved an increase to DIV's monthly dividend from $0.01667

per share ($0.20 per share on an annualized basis) to $0.0175 per share ($0.21 per share on an annual basis) effective with the dividend declared in the month of August 2021.

As at September 30, 2021, the Company had a cash balance of $7.2 million (December 31, 2020 - $9.2 million) and positive working capital of $6.8 million (December 31, 2020 - $10.2 million). Management expects to refinance the non-amortizing loans as they become due and have sufficient cash resources to settle other contractual liabilities as they become payable.

17. Supplemental cash flow information:

The following table reconciles the movements in liabilities to cash flows arising from financing activities, including both changes arising from cash flows and non-cash changes:

	Promissory note	Acquisition facility (note 8(a))	Long-term debt (note 8(b))	Convertible debentures	Lease obligations (note 11)	Total
Balance, December 31, 2020	$ 3,108	$ (247)	$ 98,557	$ 54,535	$ -	$ 155,953
Changes from financing cash flows:						
Proceeds from issuance of debt	-	-	11,400	-	-	11,400
Debt financing costs	-	-	(373)	-	-	(373)
Payment of lease obligation	-	-	-	-	(34)	(34)
Liability-related other changes:						
New lease	-	-	-	-	743	743
Amortization of deferred financing charges	-	96	113	399	-	608
Accretion expense and other	107	-	-	667	32	806
Balance, September 30, 2021	$ 3,215	$ (151)	$ 109,697	$ 55,601	$ 741	$ 169,103

18. Subsequent event:

On October 28, 2021, the Board of Directors approved an increase to DIV's monthly dividend from $0.0175 per share ($0.21 per share on an annualized basis) to $0.01833 per share ($0.22 per share on an annual basis) effective with the dividend declared in the month of November 2021.