Diversified Royalty Corp. Announces First Quarter 2022 Results

Vancouver, BC, May 10, 2022 – Diversified Royalty Corp. (TSX: DIV; DIV.DB and DIV.DB.A) (the "Corporation" or "DIV") is pleased to announce its financial results for the three months ended March 31, 2022 ("Q1 2022").

Q1 2022 Highlights

- Revenue of $9.7 million, up 28.0% compared to the three months ended March 31, 2021 ("Q1 2021").
- Adjusted revenue[1] of $11.0 million, up 24.4% compared to Q1 2021.
- Distributable cash[1] of $7.2 million, up 22.4% compared to Q1 2021.
- Payout ratio[1] of 93.6% based on dividends of $0.22 per share on an annualized basis, an improvement compared to 103.1% in Q1 2021 based on dividends of $0.20 per share on an annualized basis.
- On March 30, 2022, DIV closed its bought deal offering of $52.5 million principal amount of 6% convertible debentures resulting in net proceeds of $50.4 million. The net proceeds along with cash on hand were used to partially redeem the Company's existing convertible debentures on May 4, 2022.

First Quarter Results

	Three months ended March 31,	
(000's)	2022	2021
Mr. Lube	$ 4,809	$ 3,360
AIR MILES®	1,530	1,525
Sutton	1,053	1,033
Oxford	1,030	906
Mr. Mikes[1]	1,300	497
Nurse Next Door	1,272	1,246
Adjusted revenue[2]	$ 10,994	$ 8,837

1) 2022 figure includes a one-time payment from Mr. Mikes of $0.55 million representing partial payment of deferred contractual royalty fees and accrued management fees, which has been recognized as revenue upon collection.
2) Adjusted revenue is a non-IFRS financial measure and as such, does not have a standardized meaning under IFRS. For additional information, refer to "Non-IFRS Financial Measures" in this news release.

In Q1 2022, DIV generated $9.7 million of revenue compared to $7.6 million in Q1 2021. After taking into account the DIV Royalty Entitlement[1] (defined below) related to DIV's royalty arrangements with Nurse Next Door Professional Homecare Services Inc. ("Nurse Next Door"), DIV's adjusted revenue was $11.0 million in Q1 2022, compared to $8.8 million in Q1 2021. Adjusted revenue increased primarily due to positive trends experienced by most of DIV's royalty partners, as discussed in further detail below. COVID-19 and the related government restrictions more adversely impacted DIV's royalty partners in Q1 2021, compared to the current quarter. In addition, incremental revenue was generated from the addition of 13 locations to the Mr. Lube Canada Limited Partnership ("Mr. Lube") royalty pool and the 0.5% increase in the Mr. Lube royalty rate on May 1, 2021.

1. Adjusted revenue, distributable cash and DIV Royalty Entitlement are non-IFRS financial measures and payout ratio is a non-IFRS ratio, and as such, do not have a standardized meaning under IFRS. For additional information, refer to "Non-IFRS Measures" in this news release.

Royalty Partner Business Updates

Mr. Lube: Mr. Lube generated same-store-sales-growth ("SSSG")[2] of 16.3% for the Mr. Lube stores in the royalty pool for Q1 2022, compared to SSSG of 3.9% in Q1 2021. The increase was due to a variety of factors including continued growth in Mr. Lube's maintenance services, tire services and sales carried over from the fourth quarter of 2021, the effectiveness in Mr. Lube's targeted multimedia marketing campaigns, the addition of 13 new stores to the Mr. Lube royalty pool and the 0.5% increase to the Mr. Lube royalty rate on May 1, 2021.

2. Same-store-sales growth or SSSG is a non-IFRS financial measure – see "Non-IFRS Measures" below.

AIR MILES®: AIR MILES® reward miles issued decreased by 4.2% in Q1 2022, primarily due to the non-renewal of two sponsors in the first quarter of 2021. AIR MILES® reward miles redeemed increased by 43.0% in Q1 2022, primarily reflecting pent-up demand for travel as COVID-related restrictions abated.

During the first quarter of 2022, AIR MILES® renewed top five sponsor, American Express, activated a national marketing campaign to drive greater collector enrollment and engagement and launched several additional marketing campaigns in conjunction with the AIR MILES® 30th anniversary.

Sutton: During the first quarter of 2022, 100% of the fixed royalty was collected from Sutton. The fixed royalty payable by Sutton increases at a rate of 2% per year, with the most recent increase effective July 1, 2021.

Oxford: Oxford locations in the Oxford royalty pool generated SSSG (on a constant currency basis) of 14.2% in Q1 2022, compared to SSSG of -19.3% in Q1 2021. In March 2022, most Ontario government mandated COVID-19 restrictions were lifted (with Ontario being Oxford's largest market), including most mandatory vaccination, masking requirements and distance restrictions. During the quarter, Oxford saw a transition back to in-person tutoring for many locations. March 2022 was the strongest March in Oxford's history and is the third strongest month ever on the basis of system sales[3].

3. Systems sales is a supplementary financial measure – see "Non-IFRS Measures" below.

Mr. Mikes: Mr. Mikes reported that SSSG, for Mr. Mikes restaurants in the royalty pool was 24.6% in the first quarter of 2022 compared to the first quarter of 2021, which included stores that were temporarily closed due to the COVID-19 pandemic.

In Q1 2022, DIV granted royalty and management fee relief to Mr. Mikes in connection with the COVID-19 pandemic, collecting 67% of the contractual royalty amounts. In addition, in March 2022, Mr. Mikes made a one-time payment of approximately $0.55 million to DIV and its subsidiary MRM Royalties Limited Partnership representing partial payment of deferred contractual royalty fees and accrued management fees, which has been recognized as revenue upon collection.

Most Mr. Mikes locations are in BC and Alberta. In March 2022, some BC government mandated COVID restrictions were lifted, including masking requirements in public indoor settings; however, the proof of vaccination requirements for restaurants remained in place until early April 2022. In Alberta, the proof of vaccination program ended earlier in 2022, and the mask mandate was lifted on March 1, 2022 as part of the government's easing of COVID-19 restrictions. As such, the management team at Mr. Mikes expects a measured return of system sales towards pre-pandemic levels.

DIV is in discussions with Mr. Mikes and its lender regarding additional royalty and management fee relief for Mr. Mikes, which DIV expects may be required until such time as all government restrictions impacting the operation of Mr. Mikes restaurants are lifted and the business stabilizes

Nurse Next Door: The royalty entitlement to DIV (the "DIV Royalty Entitlement[4]") from Nurse Next Door was $1.3 million in Q1 2022. The DIV Royalty Entitlement from Nurse Next Door grows at a fixed rate of 2.0% per annum during the term of the license, with the most recent increase effective October 1, 2021. In Q1 2022, Nurse Next Door signed 16 new franchises primarily in major metropolitan markets (3 in Canada, 11 in the US and 2 in Australia). Nurse Next Door continues to make its fixed royalty payment to DIV in full, which DIV expects will continue.

4. DIV Royalty Entitlement is a non-IFRS measure – see "Non-IFRS Financial Measures" below.

First Quarter Commentary

Sean Morrison, President and Chief Executive Officer of DIV stated, "We are very encouraged with the strong start to 2022. Mr. Lube, our largest royalty partner, produced continued robust results, generating SSSG of 16.3% for the period ended March 31, 2022. The outlook for Mr. Lube remains strong with tire and minor maintenance services continuing to drive growth. Oxford Learning had its third best month in its history (based on system sales), in March 2022, while dealing with COVID-19 spacing restrictions in Ontario up to March 21st. These strong results are indicative of the pent-up demand for tutoring services and Oxford's strong outlook now that core COVID-19 restrictions in Ontario have been removed. With the recent removal of COVID-19 vaccine passports mandates in Alberta (February 2022) and in BC (early April 2022), Mr. Mikes is positioned to continue its recovery towards pre-COVID sales levels. Air Miles has stabilized, and Sutton and Nurse Next Door continue to make their fixed-growth royalty payments."

Distributable Cash and Dividends Declared

In Q1 2022, distributable cash increased to $7.2 million ($0.0587 per share), from $5.9 million ($0.0485 per share) in Q1 2021. The increase in distributable cash was primarily due to higher adjusted revenue (including the one-time payment of approximately $0.55 million made by Mr. Mikes to DIV and its subsidiary MRM Royalties Limited Partnership noted above) partially offset by higher current tax expense, salaries and benefits and interest expense. The increase in distributable cash per share[5] was primarily due to the increase in distributable cash, partially offset by a higher weighted average number of common shares outstanding.

5. Distributable cash per share is a non-IFRS ratio and as such, does not have a standardized meaning under IFRS. For additional information, refer to "Non-IFRS Financial Measures" in this news release.

In Q1 2022, the payout ratio was 93.6%, a decrease when compared to the payout ratio in Q1 2021 of 103.1%. The decrease was primarily due to higher distributable cash, partially offset by higher dividends declared per share.

Net Income

Net income for Q1 2022 was $6.2 million, compared to net income of $4.1 million in Q1 2021. The increase in net income was primarily due to higher adjusted revenues, and a higher fair value gain on financial instruments partially offset by an increase in tax expense and salaries and benefits.

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 Mr. Lube, AIR MILES®, Sutton, Mr. Mikes, Nurse Next Door and Oxford Learning Centres trademarks. Mr. Lube is the leading quick lube service business in Canada, with locations across Canada. AIR MILES® is Canada's largest coalition loyalty program. Sutton is among the leading residential real estate brokerage franchisor businesses in Canada. Mr. Mikes currently operates casual steakhouse restaurants primarily in western Canadian communities. Nurse Next Door is one of North America's fastest growing home care providers with locations across Canada and the United States as well as in Australia. Oxford Learning Centres is one of Canada's leading franchised supplemental education services in Canada and the United States.

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 "intend" 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 includes, but is not limited to, statements made in relation to: Mr. Mikes management's expectation of a measured return of system sales towards pre-pandemic levels; DIV's expectation that Mr. Mikes may require additional royalty relief until such time as all government restrictions impacting the operation of Mr. Mikes restaurants are lifted and the business stabilizes; DIV's expectation that Nurse Next Door will continue to make its fixed royalty payments in full; the outlook for Mr. Lube remaining strong with tire and minor maintenance services continuing to drive growth; DIV's outlook for Oxford being strong given the removal of core COVID-19 restrictions in Ontario; DIV's intention to pay monthly dividends 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 by such forward-looking information. DIV believes that the expectations reflected in the forward-looking information included in this news release are reasonable but no assurance can be given that these expectations will prove to be correct. In particular, risks and uncertainties include: DIV's royalty partners may not make their respective royalty payments to DIV, in whole or in part; DIV's royalty partners may request further royalty relief; Loyalty Ventures' marketing campaigns may not achieve their intended outcomes; Mr. Mikes' restaurants may not see improved sales following the removal of vaccine passport mandates, and such mandates may be re-imposed; Mr. Lube and Oxford may not continue their recent strong performance; the performance of DIV's royalty partners may not return to pre-COVID levels; COVID-19 may have a more significant negative impact on DIV and its royalty partners (including their respective franchisees) than currently expected and the businesses of DIV's royalty partners (and their respective franchisees) may not fully recover following the relaxation of government restrictions; DIV may not be successful in preserving or enhancing shareholder value or the long-term success of its Royalty Partners; current improvement trends being experienced by certain of DIV's royalty partners (and their respective franchisees) may not continue and may regress; DIV may not be able to make monthly dividend payments to the holders of its common shares; dividends are not guaranteed and may be reduced, suspended or terminated at any time; or DIV may not 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 10, 2022 and in DIV's management's discussion and analysis for the three months ended March 31, 2022, copies of which are available under DIV's profile on SEDAR at www.sedar.com.*

In formulating the forward-looking information contained herein, management has assumed that DIV will generate sufficient cash flows from its royalties to service its debt and pay dividends to shareholders; lenders will provide any necessary waivers required in order to allow DIV to continue to pay dividends; the impacts of COVID-19 on DIV and its royalty partners (including their respective franchisees) will be consistent with DIV's expectations and the expectations of management of each of its Royalty Partners, both in extent and duration; DIV and its royalty partners (including their respective franchisees) will be able to reasonably manage the impacts of the COVID-19 pandemic on their respective businesses; vaccination programs will be successful and vaccines effective, and the expected positive impacts thereof on DIV and the businesses of its royalty partners (including their respective franchisees) will be consistent with DIV's expectations; the performance of DIV's royalty partners will be consistent with DIV's and its royalty partners' respective expectations; recent positive trends for certain of DIV's royalty partners (including their respective franchisees) will continue and not regress; and recently relaxed government mandated COVID-19 restrictions will not be re-imposed. These assumptions, although considered reasonable by management at the time of preparation, may prove to be incorrect.

All of the forward-looking information 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 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 ended March 31, 2022, are consistent with the preliminary results for such period reported in DIV's news release dated April 28, 2022.

<u>Non-IFRS Measures</u>

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 and the performance of its royalty partners. 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 and its royalty partners than investors would have if they simply considered IFRS measures alone. The non-IFRS financial measures, non-IFRS ratios and supplementary 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.

"Adjusted revenue", "DIV Royalty Entitlement" and "distributable cash" are used as non-IFRS financial measures in this news release.

Adjusted revenue is calculated as royalty income plus DIV Royalty Entitlement and management fees. The following table reconciles adjusted revenue to royalty income, the most directly comparable IFRS measure disclosed in the financial statements:

	Three months ended March 31,	
(000's)	**2022**	**2021**
Mr. Lube	$ 4,753	$ 3,575
AIR MILES®	1,530	1,525
Sutton	1,026	1,006
Oxford	1,020	896
Mr. Mikes[1]	1,279	497
Royalty income	**$ 9,608**	**$ 7,499**
DIV Royalty Entitlement	1,252	1,227
Adjusted royalty income	**$ 10,860**	**$ 8,726**
Management fees	134	111
Adjusted revenue	**$ 10,994**	**$ 8,837**

1) 2022 figure includes a one-time Mr. Mikes payment of $0.55 million representing partial payment of deferred contractual royalty fees and accrued management fees, which has been recognized as revenue upon collection.

For further details, refer to the section on Non-IFRS Financial Measures entitled "DIV Royalty Entitlement, Adjusted Royalty Income and Adjusted Revenue" in the Corporation's management's discussion and analysis for the three months ended March 31, 2022, a copy of which is available on SEDAR at www.sedar.com.

The most closely comparable IFRS measure to DIV Royalty Entitlement is "distributions received from NND LP". DIV Royalty Entitlement is calculated as distributions received from NND LP, before any deduction for expenses incurred by NND Holdings Limited Partnership ("NND LP"), which expenses include legal, audit, tax and advisory services. Note that distributions received from NND LP is derived from the royalty paid by Nurse Next Door to NND LP. The following table reconciles DIV Royalty Entitlement to distributions received from NND LP in the financial statements:

	Three months ended March 31,	
(000's)	**2022**	**2021**
Distributions received from NND LP	$ 1,246	$ 1,222
Add: NND Royalties LP expenses	6	5
DIV Royalty Entitlement	1,252	1,227
Less: NND Royalties LP expenses	(6)	(5)
DIV Royalty Entitlement, net of NND Royalties LP expenses	**$ 1,246**	**$ 1,222**

For further details, refer to the section on Non-IFRS Financial Measures entitled "DIV Royalty Entitlement net of NND Royalties LP Expenses" in the Corporation's management's discussion and analysis for the three months ended March 31, 2022, a copy of which is available on SEDAR at www.sedar.com.

The following table reconciles distributable cash to cash flows generated from operating activities, the most directly comparable IFRS measure disclosed in the financial statements:

(000's)	Three months ended March 31, 2022	2021
Cash flows generated from operating activities	$ 6,346	$ 6,096
Changes in working capital	806	97
Current tax expense	(1,121)	(675)
Taxes paid	1,961	1,127
Accrued interest on convertible debentures	(763)	(755)
Foreign exchange loss	1	(3)
Transaction costs	-	-
Payment of lease obligations	(26)	-
Accrued DIV Royalty Entitlement, net of distributions	6	4
NND LP expenses	(6)	(5)
Distributable cash	**$ 7,204**	**$ 5,886**

For further details, refer to the section on Non-IFRS Financial Measures entitled "Distributable cash" in the Corporation's management's discussion and analysis for the three months ended March 31, 2022, a copy of which is available on SEDAR at www.sedar.com.

"Distributable cash per share" and "payout ratio" are non-IFRS ratios that do not have a standardized meaning prescribed by IFRS, and therefore may not be comparable to similar ratios presented by other issuers. Distributable cash per share is defined as distributable cash, a non-IFRS measure, divided by the weighted average number of common shares outstanding during the period. The payout ratio is calculated by dividing the dividends per share during the period by the distributable cash per share, a non-IFRS measure, generated in that period. For further details, refer to the subsection entitled "Non-IFRS Ratios" under "Description of Non-IFRS Financial Measures, Non-IFRS Ratios and Supplementary Financial Measures" in the Corporation's management's discussion and analysis for the three months ended March 31, 2022, a copy of which is available on SEDAR at www.sedar.com.

"Same store sales growth" or "SSSG" and "system sales" are supplementary financial measures and do not have standardized meanings prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. For further details, refer to the subsection entitled "Supplementary Financial Measures" under "Description of Non-IFRS Financial Measures, Non-IFRS Ratios and Supplementary Financial Measures" in the Corporation's management's discussion and analysis for the three months ended March 31, 2022 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 as well as financial statements and other reports provided to DIV by its royalty partners. 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

The information in this news release should be read in conjunction with DIV's consolidated financial statements and management's discussion and analysis ("MD&A") for the three months ended March 31, 2022, which are available on SEDAR at www.sedar.com.

Additional information relating to the Corporation and other public filings, is available on SEDAR at www.sedar.com.

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