

Condensed Consolidated Interim Financial Statements of

**DIVERSIFIED ROYALTY CORP.**

Three and nine months ended September 30, 2022 and 2021  
(Unaudited)

**DIVERSIFIED ROYALTY CORP.**

Condensed Consolidated Interim Statements of Financial Position  
(Unaudited)  
(Expressed in thousands of Canadian dollars)

	Note	September 30, 2022	December 31, 2021
<b>Assets</b>			
Current assets:			
Cash		\$ 9,150	\$ 8,939
Royalties and management fees receivable	5	5,121	4,911
Amounts receivable		16	11
Prepaid expenses and other		370	297
Interest rate swap assets	10	1,615	-
		16,272	14,158
Interest rate swap assets	10	1,602	647
Right-of-use asset and other		826	897
Investment in NND LP	6	43,714	44,467
Intangible assets	7	324,872	320,595
		\$ 387,286	\$ 380,764
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 1,756	\$ 2,544
Interest rate swap liabilities	10	-	984
Income tax payable	12	1,468	2,121
Convertible debentures	9	4,966	55,968
		8,190	61,617
Long-term bank loans, net of deferred financing charges	8	109,909	109,750
Long-term convertible debentures	9	47,410	-
Promissory note		3,215	3,109
Exchangeable units and other	11	2,848	2,008
Interest rate swap liabilities	10	-	33
Lease obligation		785	829
Deferred income tax liability	12	15,760	11,893
Shareholders' equity:			
Share capital		208,141	201,972
Contributed surplus		39,933	39,450
Equity component of convertible debentures		4,255	2,938
Accumulated deficit		(53,160)	(52,835)
		199,169	191,525
		\$ 387,286	\$ 380,764

Nature of operations (note 1)

Subsequent events (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 and Comprehensive Income

(Unaudited)

(Expressed in thousands of Canadian dollars, except per share amounts)

	Note	Three months ended September 30,			Nine months ended September 30,		
		2022	2021	2022	2021		
Royalty income	4	\$ 11,493	\$ 9,745	\$ 32,064	\$ 26,307		
Management fees		148	116	399	338		
		11,641	9,861	32,463	26,645		
Expenses:							
Salaries and benefits		471	483	1,569	1,372		
Share-based compensation	13	267	326	823	775		
General and administration		198	185	592	544		
Professional fees		133	65	337	394		
		1,069	1,059	3,321	3,085		
Income from operations		10,572	8,802	29,142	23,560		
Interest expense on credit facilities		(2,288)	(1,880)	(6,474)	(5,452)		
Other finance costs, net	15	(660)	(482)	(1,489)	(1,392)		
Fair value adjustment on financial instruments	6, 10, 11	1,966	1,777	6,585	4,434		
Income before income taxes		9,590	8,217	27,764	21,150		
Income tax expense	12	2,862	2,274	7,697	5,862		
Net income and comprehensive income		\$ 6,728	\$ 5,943	\$ 20,067	\$ 15,288		
Weighted average number of shares outstanding							
Basic		124,427,909	122,038,948	123,603,610	121,702,986		
Diluted		125,523,340	135,698,329	144,110,093	122,595,464		
Income per share							
Basic	14	\$ 0.05	\$ 0.05	\$ 0.16	\$ 0.13		
Diluted	14	\$ 0.05	\$ 0.05	\$ 0.16	\$ 0.12		

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)

	Note	Common shares	Share capital	Contributed surplus	Equity component of convertible debentures	Accumulated deficit	Total equity
Balance, December 31, 2021		122,559,192 \$	201,972 \$	39,450 \$	2,938 \$	(52,835) \$	191,525
Common shares issued on DRIP		928,252	2,551	-	-	-	2,551
Restricted share units settled		81,582	196	(300)	-	-	(104)
Share-based compensation		-	-	783	-	-	783
Dividends declared		-	-	-	-	(20,392)	(20,392)
Redemption of convertible debentures, net of deferred taxes	9	-	-	-	(774)	-	(774)
Issuance of convertible debentures	9	-	-	-	2,091	-	2,091
Addition to intangible assets	7	1,083,063	3,422	-	-	-	3,422
Comprehensive income		-	-	-	-	20,067	20,067
Balance as at September 30, 2022		124,652,089 \$	208,141 \$	39,933 \$	4,255 \$	(53,160) \$	199,169

	Note	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 as at September 30, 2021		122,250,481 \$	201,141 \$	39,456 \$	2,938 \$	(54,437) \$	189,098

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**DIVERSIFIED ROYALTY CORP.**

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited)

(Expressed in thousands of Canadian dollars)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2022	2021	2022	2021
<b>Operating activities:</b>					
Net income		\$ 6,728	\$ 5,943	\$ 20,067	\$ 15,288
Adjustments for:					
Tax expense	12	2,862	2,274	7,697	5,862
Depreciation expense		25	25	74	66
Share-based compensation		267	326	823	775
Fair value adjustments on financial instruments		(1,966)	(1,777)	(6,585)	(4,434)
Interest expense on credit facilities		2,288	1,880	6,474	5,452
Other finance costs, net		660	482	1,489	1,392
Foreign exchange loss		5	3	6	-
Interest paid		(1,435)	(1,125)	(5,621)	(4,697)
Interest received		18	3	87	22
Taxes paid		(1,119)	(530)	(5,028)	(2,187)
Distributions received from NND LP		1,250	1,228	3,736	3,668
Distributions paid on Exchangeable MRM Units	11a	(278)	-	(278)	-
Changes in non-cash operating items:					
Royalties and management fees receivable		353	27	(210)	(361)
Amounts receivable		(8)	33	(5)	(4)
Prepaid expenses and other		(528)	(68)	(433)	(126)
Accounts payable and accrued liabilities		144	578	(2,062)	(548)
Cash flows generated from operating activities		9,266	9,302	20,231	20,168
<b>Financing activities:</b>					
Proceeds from issuance of convertible debentures, net of fees	9	-	-	50,400	-
Redemption of convertible debentures	9	-	-	(52,500)	-
Debt financing costs		-	(104)	-	(373)
Payment of dividends		(5,954)	(5,589)	(17,841)	(16,263)
Payment of lease obligations		(27)	(26)	(79)	(34)
Proceeds from issuance of debt		-	-	-	11,400
Cash flows used in financing activities		(5,981)	(5,719)	(20,020)	(5,270)
<b>Investing activities:</b>					
Additions to intangible assets	7	-	(661)	-	(16,712)
Purchase of fixed assets		-	(17)	-	(240)
Cash flows used in investing activities		-	(678)	-	(16,952)
Net increase (decrease) in cash		3,285	2,905	211	(2,054)
Cash, beginning of the period		5,865	4,259	8,939	9,218
Cash, end of the period		\$ 9,150	\$ 7,164	\$ 9,150	\$ 7,164

Supplemental cash flow information (note 17)

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

## DIVERSIFIED ROYALTY CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)  
(Tabular amounts expressed in thousands of Canadian dollars)

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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, 2022 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 25<sup>th</sup> 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 \$64.614 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”). Prior to June 13, 2022, the Company granted Mr. Mikes the licence to use the MRM Rights in exchange for a royalty payment equal to 4.35% of notional system sales of Mr. Mikes locations in the royalty pool, which was comprised of 38 Mr. Mikes Restaurants (the “Prior Mr. Mikes Royalty Pool”). As of June 13, 2022, the Company updated the licence to use the MRM Rights with a royalty payment based on the actual system sales of the Mr. Mikes locations in the royalty pool, which was comprised of 44 Mr. Mikes Restaurants (the “Amended Mr. Mikes Royalty Pool”). Refer to the subsequent events note for details (note 18b).

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 currently entitled to receive a cash distribution, currently equal to \$0.42 million per month, 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.

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### **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, the appearance of new COVID-19 variants, 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. Accordingly, DIV does not know the full extent of the financial impact of such interruptions going forward. 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, 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. 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. There is also a risk that certain Royalty Partner franchise locations that temporarily closed 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, 2021.

These condensed consolidated interim financial statements were authorized and approved for issue by the Company's Board of Directors on November 9, 2022.

#### (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 consolidated financial statements for the year ended December 31, 2021.

#### (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 consolidated financial statements for the year ended December 31, 2021.

## DIVERSIFIED ROYALTY CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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### 4. Royalty income:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Mr. Lube	\$ 6,156	\$ 5,268	\$ 17,018	\$ 13,541
AIR MILES®	1,723	1,650	5,044	4,798
Mr. Mikes <sup>1</sup>	1,663	980	3,854	2,300
Sutton	1,047	1,026	3,099	3,038
Oxford	904	821	3,049	2,630
	\$ 11,493	\$ 9,745	\$ 32,064	\$ 26,307

1) For the three and nine months ended September 30, 2022, Mr. Mikes royalty income includes payments of \$0.55 million and \$1.13 million, respectively, representing partial payment of deferred contractual royalty fees and deferred contractual management fees, which has been recognized as revenue upon collection.

For the three months ended September 30, 2022, DIV collected 100% of Mr. Mikes contractual royalty, compared to 83% for the three months ended September 30, 2021. For the nine months ended September 30, 2022, DIV granted royalty relief to Mr. Mikes in connection with the COVID-19 pandemic, collecting 88% of the contractual royalty amounts for the nine months ended September 30, 2022, compared to 75% for the nine months ended September 30, 2021.

Effective July 1, 2022, the monthly Sutton Royalty Rate increased from \$63.347 per agent to \$64.614 per agent.

### 5. Royalties and management fees receivable:

	September 30,	December 31,
	2022	2021
Mr. Lube	\$ 2,123	\$ 1,813
AIR MILES®	1,947	2,003
Sutton	376	369
Oxford	376	353
Mr. Mikes	292	366
Nurse Next Door	7	7
	\$ 5,121	\$ 4,911

### 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, 2022 and December 31, 2021. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.4% (December 31, 2021 – 13.9%).

The total fair value of NND LP at September 30, 2022, was \$43.7 million (December 31, 2021 - \$44.5 million) and a fair value gain of \$3.0 million was recorded during the nine months ended September 30, 2022 (2021 – \$3.6 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, 2022, the DIV Distribution Entitlement was \$3.7 million gross and net of expenses incurred by NND LP (September 30, 2021 - \$3.7 million gross and net of expenses incurred by NND LP).



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### 7. Intangible Assets:

	ML Rights (a)	AIR MILES (b)	SGRS Rights (c)	MRM Rights (d)	Oxford Rights (e)	Total
Balance, December 31, 2021	\$ 170,958	\$ 48,810	\$ 32,273	\$ 29,050	\$ 39,504	\$ 320,595
Additions	4,277	-	-	-	-	4,277
Balance, September 30, 2022	\$ 175,235	\$ 48,810	\$ 32,273	\$ 29,050	\$ 39,504	\$ 324,872

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 the Mr. Lube Royalty Pool will be adjusted to include royalties from 13 additional Mr. Lube locations effective May 1, 2021.

The initial consideration paid on May 1, 2021, 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 estimated consideration of \$9.6 million. After adjusting to reflect the actual system sales of these locations for the year ending December 31, 2021, DIV paid Mr. Lube the remaining \$1.6 million of cash consideration for the net additional royalty revenue related to 7 of the 13 locations on May 1, 2022. 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. As at September 30, 2022, the remaining consideration payable to Mr. Lube was \$1.0 million, recorded to exchangeable units and other (note 11b) on the statement of financial position.

On May 1, 2022, the Mr. Lube Royalty Pool was adjusted to include the royalties from 6 new Mr. Lube locations and to remove two Mr. Lube locations for which make-whole payments were being made due to the store closures in 2021. The initial consideration for the addition of 6 new stores to the Mr. Lube Royalty Pool was determined to be \$3.4 million, representing 80% of the total consideration of \$4.3 million, based on the forecast system sales of these 6 locations for the 2022 fiscal year. DIV elected to pay the initial consideration in shares and issued 1,083,063 DIV shares to Mr. Lube, valued at \$3.1592 per share based on the weighted average share price of the Company's shares over the 20 trading days ending on April 25, 2022, the fifth trading day before May 1, 2022. 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. The remaining 20% consideration payable for the additional royalty revenue related to the 6 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. As at September 30, 2022, the remaining consideration payable to Mr. Lube was \$0.8 million, recorded to exchangeable units and other (note 11b) on the statement of financial position.

In addition, on May 1, 2022, Mr. Lube elected to defer the third royalty rate increase until the next adjustment date in respect of which the Mr. Lube royalty rate will be eligible to be increased.

### 8. Borrowings:

#### (a) Acquisition facility:

The Company has a \$50.0 million undrawn senior secured credit facility (the "Acquisition Facility") that matures on April 20, 2026. As at September 30, 2022, the Company had \$nil outstanding under the Acquisition Facility.

On April 20, 2022, DIV amended its Acquisition Facility to allow for a one-time advance of up to \$9.0 million to be used to partially fund the repayment of DIV's outstanding convertible debentures due on December 31, 2022 ("2022 Debentures") and to extend the maturity date of the Acquisition Facility to April 20, 2026. In addition, the Company incurred transaction costs of \$0.2 million, which were recorded to prepaid expenses and other on the balance sheet and will be amortized over the term of the Acquisition Facility.

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### 8. Borrowings (continued):

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

As at September 30, 2022, 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	\$ 52,764
AM LP term loan	BA + 1.95%	Sep 30, 2026	17,400	17,276
SGRS LP term loan	BA + 1.95%	Jun 30, 2026	6,300	6,258
MRM LP term loan	BA + 1.95%	Jun 24, 2024	10,300	10,251
NNDH LP term loan	BA + 1.90%	Nov 15, 2024	14,500	14,417
OX LP term loan	BA + 1.95%	Apr 27, 2025	9,000	8,943
			\$ 110,500	\$ 109,909

As at September 30, 2022, the Company had the following operating lines of credit:

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

As at September 30, 2022, the Company was in compliance with all financial covenants associated with its Acquisition Facility, term loan facilities and operating lines of credit. The AM Credit Agreement was amended and restated in September 2021 in order to, among other things, amend the financial covenants for the last quarter of 2021 and for the first two quarters of 2022. The AM Credit Agreement was amended and restated again in September 2022 in order to, among other things, amend the financial covenants for the last two fiscal quarters of 2022. If AM LP had not received such waivers or entered into such amendment, AM LP would have been in breach of its financial covenants as of September 30, 2022.

### 9. Convertible Debentures:

On March 30, 2022, the Company issued convertible unsecured subordinated debentures ("2027 Debentures") for an aggregate principal amount of \$52.5 million at a price of \$1,000 per debenture ("the Offering"). The 2027 Debentures mature on June 30, 2027 and bear interest at an annual rate of 6.00% payable semi-annually in arrears on the last day of December and June in each year, commencing June 30, 2022. At the holder's option, the 2027 Debentures may be converted into common shares of the Company at any time prior to the earlier of the last business day immediately preceding June 30, 2027 and the date specified by the Company for redemption. The conversion price will be \$4.05 per common share (the "Conversion Price"), subject to adjustment in certain circumstances.

The 2027 Debentures are not redeemable prior to June 30, 2025, except upon the satisfaction of certain conditions after a change of control has occurred. On and after June 30, 2025 and prior to June 30, 2026, the 2027 Debentures may be redeemed in whole or in part from time to time at DIV's option, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the Conversion Price. On or after June 30, 2026 and prior to the maturity date, DIV may, at its option, redeem the 2027 Debentures, in whole or in part, from time to time at par plus accrued and unpaid interest. On redemption or at maturity, the Company will repay the indebtedness of the 2027 Debentures by paying an amount equal to the principal amount of the outstanding debentures, together with accrued and unpaid interest thereon.

The Company may, at its option, elect to satisfy its obligation to repay the principal amount of the 2027 Debentures, which are to be redeemed or which have matured, by issuing shares to the holders of the convertible debentures. The number of shares

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### 9. Convertible Debentures (continued):

to be issued will be determined by dividing \$1,000 of principal amount of the debentures by 95% of the then current market price on the maturity date.

On initial recognition, the Company valued the liability component of the 2027 Debentures at \$49.4 million and the equity component at \$3.1 million. In addition, the Company incurred transaction costs of \$2.6 million, of which \$2.4 million was allocated to the liability component and \$0.2 million was allocated to the equity component. The net amount recognized as the equity component of the 2027 Debentures, after deferred taxes of \$0.8 million, was \$2.1 million.

On May 4, 2022, ("Redemption Date"), the Company used the net proceeds from the Offering to complete the \$52.5 million partial redemption of the principal amount of the 2022 Debentures outstanding plus accrued and unpaid interest at 5.25% up to, but excluding, the Redemption Date. As a result of the partial redemption, \$0.8 million, after recovery of deferred taxes of \$0.3 million, was removed from the equity component of convertible debentures. Refer to the subsequent events note for details regarding the full redemption of the remaining 2022 Debentures (note 18a).

The following table reconciles the principal amount of the 2022 Debentures to the carrying value of the liability component:

	September 30, 2022	December 31, 2021
Principal amount - 2022 Debentures	\$ 57,500	\$ 57,500
Partial Redemption - principal amount	(52,500)	-
Partial Redemption - deferred financing fees	(393)	-
Equity component	(4,312)	(4,312)
Partial Redemption - equity component	1,058	-
Unamortized deferred financing fees	(13)	(570)
Accretion on liability component	3,626	3,350
Current portion of convertible debentures	\$ 4,966	\$ 55,968

The following table reconciles the principal amount of the 2027 Debentures to the carrying value of the liability component:

	September 30, 2022	December 31, 2021
Principal amount - 2027 Debentures	\$ 52,500	\$ -
Equity component	(3,074)	-
Unamortized deferred financing fees	(2,262)	-
Accretion on liability component	246	-
Long-term portion of convertible debentures	\$ 47,410	\$ -

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### 10. Interest rate swaps:

The following table summarizes the interest rate swap agreements the Company has entered into as of September 30, 2022. The Company recorded a fair value gain of \$0.4 million and \$3.6 million related to the interest rate swaps for the three and nine months ended September 30, 2022.

Term loan facilities	Effective date	Maturity date	Fixed interest rate	Notional amount
ML LP	Jul 29, 2022	May 1, 2025	4.25% \$	39,750
AM LP	Aug 19, 2022	Sep 30, 2026	5.39%	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

### 11. Exchangeable Units and Other:

#### (a) MRM Units:

Mr. Mikes is entitled to receive distributions from MRM LP on the retained interest on a pro rata basis with the limited partnership units of MRM LP (the "MRM Units") held by DIV. The MRM Units are recorded as a liability and measured at fair value. The distributions issued by MRM LP to Mr. Mikes are recorded as an expense on the Company's income statement. As at September 30, 2022, MRM LP issued distributions of \$0.3 million to Mr. Mikes (December 31, 2021 – nil.)

The fair value of the MRM Units is determined at the end of each period by multiplying the number of 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, 2022, the MRM Units were valued at \$1.0 million based on the DIV closing share price of \$2.78 at period end (December 31, 2021 - \$2.82), multiplied by the total number of MRM Units of 355,032.

#### (b) ML Units:

The balance as at September 30, 2022 of \$1.8 million (December 31, 2021 - \$1.0 million) in exchangeable units and other relates to the consideration payable to Mr. Lube, of which \$1.0 million is related to the remaining consideration payable for the 2021 addition of 6 of the 13 locations to be paid to Mr. Lube on May 1, 2023 and \$0.8 million is related to the remaining 20% consideration payable for the additional royalty revenue related to the 2022 addition of 6 locations to be paid to Mr. Lube on May 1, 2023 (refer to note 7). There have been no fair value adjustments since December 31, 2021.

### 12. Income Taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Deferred income tax expense	\$ 1,040	\$ 1,121	\$ 3,321	\$ 3,142
Current income tax expense	1,822	1,153	4,376	2,720
	\$ 2,862	\$ 2,274	\$ 7,697	\$ 5,862

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### 12. Income Taxes (continued):

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

	September 30, 2022	December 31, 2021
Intangible assets	\$ 214	\$ 227
Financing and share issuance costs	125	93
Convertible debentures	(769)	(260)
Other	(1,297)	(358)
Intangible assets	(14,033)	(11,595)
Net deferred income tax liability	\$ (15,760)	\$ (11,893)

The deferred tax liability as at September 30, 2022 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately \$189.9 million (December 31, 2021 - \$199.2 million). In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately \$44.7 million at September 30, 2022 (December 31, 2021 - \$46.5 million) is allocated to the Company for tax purposes.

### 13. Share-based compensation:

#### (a) Restricted share units ("RSUs"):

The number of RSUs outstanding as at September 30, 2022, is as follows:

	September 30, 2022	
	Number of RSUs	Weighted average grant- date fair value
Balance, beginning of period	452,178	\$ 2.05
Granted	320,970	2.86
Dividends earned	39,082	2.84
Settled	(126,349)	3.12
Balance, end of period	685,881	\$ 2.28
Unvested	685,881	\$ 2.28

#### (b) Share options:

The following table summarizes the changes in the Company's share options during the nine months ended September 30, 2022:

	September 30, 2022	
	Number of options	Weighted average exercise price
Balance, beginning of period	3,041,667	\$ 3.06
Granted	791,667	2.80
Balance, end of period	3,833,334	\$ 3.01

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**13. Share-based compensation (continued):**

(b) Share options (continued):

The following table summarizes information relating to outstanding and exercisable options as at September 30, 2022:

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
October 11, 2022	\$ 3.22	0.03	2,000,000	2,000,000
November 23, 2022	3.53	0.15	250,000	250,000
May 6, 2026	2.52	3.60	791,667	263,889
January 1, 2027	2.80	4.26	791,667	-
Balance, end of period		1.65	3,833,334	2,513,889

**14. Income per share:**

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Income for the period - basic	\$ 6,728	\$ 5,943	\$ 20,067	\$ 15,288
Interest expense on convertible debentures, net of tax	-	551	2,626	-
Income for the period - diluted	\$ 6,728	\$ 6,494	\$ 22,693	\$ 15,288
Weighted average number of shares outstanding - basic	124,427,909	122,038,948	123,603,610	121,702,986
Effective impact of dilutive securities:				
Share options	54,518	28,242	115,038	-
RSUs	685,881	638,744	733,636	537,446
Convertible debentures - current & long term	-	12,637,363	19,302,777	-
Exchangeable MRM units	355,032	355,032	355,032	355,032
Weighted average number of shares outstanding - diluted	125,523,340	135,698,329	144,110,093	122,595,464
Net income per common share				
Basic	\$ 0.05	\$ 0.05	\$ 0.16	\$ 0.13
Diluted	\$ 0.05	\$ 0.05	\$ 0.16	\$ 0.12

**15. Other finance costs, net:**

	Three months ended September 30, 2022		Nine months ended September 30, 2021	
Finance income	\$ 18	\$ 3	\$ 87	\$ 22
Foreign exchange gain	5	3	6	-
Distributions paid on Exchangeable MRM Units	(278)	-	(278)	-
Amortization of deferred financing charges	(212)	(215)	(641)	(608)
Accretion expense and other	(193)	(273)	(663)	(806)
	\$ (660)	\$ (482)	\$ (1,489)	\$ (1,392)

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### 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 is measured using Level 1 inputs. The fair value of the MRM Units, ML Units and the interest rate swap liabilities are measured using Level 2 inputs. The fair value of the investment in NND LP (note 6) is measured using Level 3 inputs.

The following table represents the fair value hierarchy of financial assets:

As at September 30, 2022	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
<b>Financial assets</b>					
Cash and cash equivalents	\$ -	\$ 9,150	\$ -	\$ -	\$ -
Royalties and management fees receivable	-	5,121	-	-	-
Amounts receivable	-	16	-	-	-
Interest rate swap assets	3,217	-	-	3,217	-
Investment in NND LP	43,714	-	-	-	43,714
	\$ 46,931	\$ 14,287	\$ -	\$ 3,217	\$ 43,714

The following table represents the fair value hierarchy of financial liabilities:

As at September 30, 2022	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities	\$ -	\$ 1,756	\$ -	\$ -	\$ -
Long-term bank loans	-	109,909	-	-	-
Promissory note	-	3,215	-	-	-
Lease obligation	-	785	-	-	-
Convertible debentures - current	-	4,966	4,966	-	-
Convertible debentures - long term	-	47,410	47,410	-	-
Interest rate swap liabilities	-	-	-	-	-
Exchangeable Units & Other	2,848	-	-	2,848	-
	\$ 2,848	\$ 168,041	\$ 52,376	\$ 2,848	\$ -

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### 17. Supplemental cash flow information:

The following table represents significant non-cash transactions:

	Three months ended September 30,		Nine months ended September 30,	
	2022	2021	2022	2021
Non-cash transactions:				
Additions to intangible assets, settled in shares	\$ -	\$ -	\$ 3,422	\$ -

### 18. Subsequent Events:

#### (a) Full Redemption of the Remaining 5.25% Convertible Unsecured Subordinated Debentures:

On November 9, 2022, DIV issued a notice of redemption to the registered holder of the 2022 Debentures maturing on December 31, 2022. As set out in the notice of redemption, DIV intends to redeem all of the remaining 2022 Debentures on December 20, 2022 (the "Final Redemption Date"). The 2022 Debentures are redeemable at a redemption price equal to their principal amount, plus accrued and unpaid interest thereon up to, but excluding, the Final Redemption Date. As of the close of business on November 9, 2022, there was \$5.0 million aggregate principal amount of 2022 Debentures issued and outstanding. The redemption price will be approximately \$1,024,6458 for each \$1,000 principal amount redeemed comprised of: (i) a payment of \$1,000 of the principal amount; and (ii) approximately \$24.6458, being the accrued and unpaid interest up to but excluding the Final Redemption Date. Payment of the redemption price is expected to be made to CDS Clearing and Depository Services Inc., as the sole registered holder of the 2022 Debentures, on the Final Redemption Date, with payments to beneficial holders of the 2022 Debentures to follow after the Final Redemption Date. Trading of the 2022 Debentures on the Toronto Stock Exchange is expected to be halted prior to the open on the Final Redemption Date, with delisting to follow after the close of trading on such date. Payment is expected to be made from cash on hand.

#### (b) Amended Mr. Mikes Royalty Agreements:

On November 9, 2022, DIV, its subsidiaries MRM LP and MRM Royalties GP Inc. ("MRM GP") and Mr. Mikes, entered into amendments to certain of the agreements governing the royalty and related arrangements between the parties (collectively the "Amended MRM Royalty Agreements"), which Amended MRM Royalty Agreements are retroactively effective as of June 13, 2022.

Pursuant to the Amended MRM Royalty Agreements, the royalty rate paid by Mr. Mikes to MRM LP remains unchanged at 4.35% (the "Mr. Mikes Royalty Rate") but is now paid on the gross sales of the 44 Mr. Mikes restaurants in operation as of June 13, 2022, whereas it was previously paid on the fixed notional system sales of the 38 Mr. Mikes restaurants that previously comprised the royalty pool. Accordingly, the Mr. Mikes royalty is now a variable top-line royalty as opposed to a fixed royalty.

Mr. Mikes will continue to be permitted, on April 1st of each year, to add eligible new Mr. Mikes locations to the Mr. Mikes Royalty Pool, subject to meeting certain revised performance criteria set forth in the Amended MRM Royalty Agreements. The Amended MRM Royalty Agreements included amendments to the formula used to determine the amount of consideration payable to Mr. Mikes in consideration for the addition of net new eligible Mr. Mikes locations to the Mr. Mikes Royalty Pool, which formula is intended to be accretive to DIV shareholders.

Mr. Mikes will continue to be permitted, subject to meeting certain revised performance criteria set forth in the Amended MRM Royalty Agreements, to increase the Mr. Mikes Royalty Rate in six, 0.25% increments during the life of the royalty. The Amended MRM Royalty Agreements included amendments to the formula used to determine the amount of consideration payable to Mr. Mikes in consideration for the incremental increases to the Mr. Mikes Royalty Rate, which formula is intended to be accretive to DIV shareholders.

As part of the Amended MRM Royalty Agreements, Mr. Mikes agreed to pay 50% of the outstanding deferred contractual royalty and management fees of \$0.4 million to MRM LP and DIV on or before November 24, 2022, with the balance to be paid in four equal payments on or before the end of each quarter in 2023.

No amendments were made to the Exchange Agreement between DIV, MRM LP and Mr. Mikes dated May 20, 2019, the Management Agreement between DIV and Mr. Mikes dated May 20, 2019 or MRM LP's credit facility in connection with the Amended MRM Royalty Agreements.