

Condensed Consolidated Interim Financial Statements of

**DIVERSIFIED ROYALTY CORP.**

Three and six months ended June 30, 2023 and 2022  
(Unaudited)

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

	Note	June 30, 2023	December 31, 2022
<b>Assets</b>			
Current assets:			
Cash		\$ 5,525	\$ 7,409
Royalty and other receivables	5	5,404	5,591
Prepaid expenses and other		359	409
Interest rate swap assets	10	2,919	2,104
		14,207	15,513
Interest rate swap assets	10	1,014	1,205
Right-of-use asset and other		753	801
Investment in NND LP	6	43,616	42,339
Intangible assets	7	402,718	398,592
		\$ 462,308	\$ 458,450
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 2,494	\$ 5,376
Income tax payable	12	201	1,486
		2,695	6,862
Bank loans, net of deferred financing charges	8	151,301	147,905
Convertible debentures	9	48,103	47,637
Promissory note		3,654	3,467
Exchangeable units and other	11	2,221	3,716
Lease obligation		739	770
Deferred income tax liability	12	17,055	14,205
Shareholders' equity:			
Share capital		257,877	253,139
Contributed surplus		40,337	39,776
Equity component of convertible debentures		5,127	5,127
Accumulated other comprehensive income		(227)	1,165
Accumulated deficit		(66,574)	(65,319)
		236,540	233,888
		\$ 462,308	\$ 458,450

The accompanying notes are an integral part of these 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 June 30,			Six months ended June 30,		
		2023	2022	2023	2022		
Royalty income	4	\$ 14,023	\$ 10,963	\$ 26,237	\$ 20,571		
Management fees		126	117	253	251		
		14,149	11,080	26,490	20,822		
Expenses:							
Salaries and benefits		610	552	1,095	1,098		
Share-based compensation	13	350	301	680	556		
General and administration		277	228	524	394		
Professional fees		189	125	349	204		
		1,426	1,206	2,648	2,252		
Income from operations		12,723	9,874	23,842	18,570		
Interest expense on credit facilities		(2,958)	(2,307)	(5,768)	(4,186)		
Other finance costs, net	15	(406)	(331)	(803)	(829)		
Fair value adjustment on financial instruments	6, 10, 11	3,202	2,350	4,483	4,619		
Income before income taxes		12,561	9,586	21,754	18,174		
Income tax expense	12	3,467	2,443	5,970	4,835		
<b>Income for the period</b>		<b>\$ 9,094</b>	<b>\$ 7,143</b>	<b>\$ 15,784</b>	<b>\$ 13,339</b>		
<b>Other comprehensive loss</b>							
Item that may be reclassified subsequently to profit or loss:							
Foreign currency translation adjustment		(1,344)	-	(1,392)	-		
<b>Other comprehensive loss for the period</b>		<b>\$ (1,344)</b>	<b>\$ -</b>	<b>\$ (1,392)</b>	<b>\$ -</b>		
<b>Total comprehensive income for the period</b>		<b>\$ 7,750</b>	<b>\$ 7,143</b>	<b>\$ 14,392</b>	<b>\$ 13,339</b>		
Weighted average number of shares outstanding							
Basic		142,449,303	123,701,443	141,993,812	123,184,629		
Diluted		156,763,176	143,212,823	143,431,630	146,374,764		
Income per share							
Basic	14	\$ 0.06	\$ 0.06	\$ 0.11	\$ 0.11		
Diluted	14	\$ 0.06	\$ 0.06	\$ 0.11	\$ 0.10		

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## 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 other comprehensive income (loss)	Accumulated deficit	Total equity
Balance, December 31, 2022		141,422,794 \$	253,139 \$	39,776 \$	5,127 \$	1,165 \$	(65,319) \$	233,888
Common shares issued on DRIP		696,588	2,035	-	-	-	-	2,035
Common shares issued on RSU's settled		57,075	72	(90)	-	-	-	(18)
Share-based compensation - net of RSU's settled		-	-	651	-	-	-	651
Dividends declared		-	-	-	-	-	(17,039)	(17,039)
Settlement of consideration payable	7	832,848	2,631	-	-	-	-	2,631
Comprehensive income		-	-	-	-	(1,392)	15,784	14,392
Balance, June 30, 2023		143,009,305 \$	257,877 \$	40,337 \$	5,127 \$	(227) \$	(66,574) \$	236,540

	Note	Common shares	Share capital	Contributed surplus	Equity component of convertible debentures	Accumulated other comprehensive income	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		595,002	1,662	-	-	-	-	1,662
Common shares issued on RSU's settled		81,582	195	(301)	-	-	-	(106)
Share-based compensation - net of RSU's settled		-	-	516	-	-	-	516
Dividends declared		-	-	-	-	-	(13,549)	(13,549)
Redemption of convertible debentures	9	-	-	-	(1,058)	-	-	(1,058)
Issuance of convertible debentures	9	-	-	-	2,091	-	-	2,091
Addition to intangible assets	7	1,083,063	3,422	-	-	-	-	3,422
Comprehensive income		-	-	-	-	-	13,339	13,339
Balance, June 30, 2022		124,318,839 \$	207,251 \$	39,665 \$	3,971 \$	- \$	(53,045) \$	197,842

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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 June 30,		Six months ended June 30,	
		2023	2022	2023	2022
<b>Operating activities:</b>					
Net income		\$ 9,094	\$ 7,143	\$ 15,784	\$ 13,339
Adjustments for:					
Tax expense	12	3,467	2,443	5,970	4,835
Depreciation expense		26	24	50	49
Share-based compensation		350	301	680	556
Fair value adjustments on financial instruments		(3,202)	(2,350)	(4,483)	(4,619)
Interest expense on credit facilities		2,958	2,307	5,768	4,186
Other finance costs, net		406	331	803	829
Interest paid		(3,106)	(3,070)	(5,139)	(4,186)
Interest received		34	61	111	69
Taxes paid		(1,641)	(1,949)	(4,406)	(3,910)
Distributions received from NND LP		1,261	1,240	2,534	2,486
Distributions paid on Exchangeable MRM Units	11a	(38)	-	(73)	-
Changes in non-cash operating items:					
Royalties and management fees receivable		188	(625)	211	(563)
Amounts receivable		(47)	29	(53)	3
Prepaid expenses and other		(113)	54	(183)	95
Accounts payable and accrued liabilities		(3,575)	(1,322)	(4,582)	(2,206)
Cash flows generated from operating activities		6,062	4,617	12,992	10,963
<b>Financing activities:</b>					
Proceeds from issuance of debt	8a	7,496	-	7,496	-
Proceeds from issuance of convertible debentures, net of fees	9	-	-	-	50,400
Payment of lease obligations		(27)	(26)	(53)	(52)
RSUs settled in cash		(44)	-	(47)	-
Payment of dividends		(7,556)	(5,955)	(15,005)	(11,887)
Repayment of debt	8b	(96)	-	(2,496)	-
Redemption of convertible debentures	9	-	(52,500)	-	(52,500)
Cash flows used in financing activities		(227)	(58,481)	(10,105)	(14,039)
<b>Investing activities:</b>					
Additions to intangible assets	7	(4,754)	-	(4,754)	-
Purchase of fixed assets		(1)	-	(1)	-
Cash flows used in investing activities		(4,755)	-	(4,755)	-
Net (decrease) increase in cash		1,080	(53,864)	(1,868)	(3,076)
Cash, beginning of the period		4,428	59,726	7,409	8,939
Effect of foreign exchange rate changes on cash		17	3	(16)	2
Cash, end of the period		\$ 5,525	\$ 5,865	\$ 5,525	\$ 5,865

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

## DIVERSIFIED ROYALTY CORP.

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

For the three and six months ended June 30, 2023 and 2022

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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 six months ended June 30, 2023 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 licence 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”).

AIR MILES Loyalty Inc. (“Loyalty Inc”): AM Royalties Limited Partnership (“AM LP”) (a wholly owned subsidiary of the Company) owns the Canadian AIR MILES trademarks and certain related Canadian intellectual property rights (collectively, the “AIR MILES® Rights”) used by Loyalty Inc (an affiliate of the Bank of Montreal) in operating the AIR MILES® reward program in Canada (the “AIR MILES® Program”). In accordance with the terms of two licence agreements with Loyalty Inc (collectively, the “AIR MILES® Licences”), Loyalty Inc has an exclusive right to use the AIR MILES® Rights in Canada in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Reward 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 based on the actual system sales of the Mr. Mikes locations in the royalty pool, which was comprised of 44 Mr. Mikes Restaurants (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 currently entitled to receive a cash distribution of \$5.1 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”).

## **DIVERSIFIED ROYALTY CORP.**

Notes to Condensed Consolidated Interim Financial Statements  
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### **1. Nature of operations (continued):**

Stratus Building Solutions Franchising, LLC ("Stratus") (a US based company): Strat-B Royalties Limited Partnership ("Strat-B LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Stratus in its business (the "Stratus Rights"). The Company granted Stratus the licence to use the Stratus Rights in exchange for a royalty payment currently equal to US\$6.0 million per annum which grows at a rate of 5% in 2023, 2024, 2025 and 2026 and 4% thereafter.

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.

### **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 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, 2022.

These condensed consolidated interim financial statements were authorized and approved for issue by the Company's Board of Directors on August 14, 2023.

#### (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, 2022.

#### (c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars ("CAD").

The functional currency of Strat-B LP is the United States dollar ("USD"). All other entities in the Company have a Canadian dollar functional currency. References to "\$" or "CAD" are related to Canadian dollars, while references to "US\$" or "USD" are related to United States ("US") dollars.

### **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, 2022.

## DIVERSIFIED ROYALTY CORP.

Notes to Condensed Consolidated Interim Financial Statements  
(Unaudited)  
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For the three and six months ended June 30, 2023 and 2022

### 4. Royalty income:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Mr. Lube	\$ 7,495	\$ 6,109	\$ 13,192	\$ 10,862
Stratus <sup>1</sup>	2,020	-	4,054	-
Oxford	1,227	1,125	2,424	2,145
AIR MILES®	1,112	1,791	2,237	3,321
Mr. Mikes <sup>2</sup>	1,122	912	2,237	2,191
Sutton	1,047	1,026	2,093	2,052
	\$ 14,023	\$ 10,963	\$ 26,237	\$ 20,571

1) Stratus royalty income three and six months ended June 30, 2023 was US\$1.5 million and US\$3.0 million respectively (three and six months ended June 30, 2022 - \$nil), translated at an average foreign exchange rate of \$1.3430 and \$1.3475 to US\$, respectively.

2) For the six months ended June 30, 2023 Mr. Mikes royalty income includes a payment of \$0.09 million (2022 - \$0.55 million), representing payment of deferred contractual royalty fees, which have been recognized as revenue upon collection.

### 5. Royalty and other receivables:

	June 30,	December 31,
	2023	2022
Mr. Lube	\$ 2,539	\$ 2,102
AIR MILES®	1,111	1,641
Stratus <sup>1</sup>	598	612
Oxford	491	445
Sutton	376	376
Mr. Mikes	213	392
Other	69	16
Nurse Next Door	7	7
	\$ 5,404	\$ 5,591

1) Stratus royalty receivable was US\$0.45 million at June 30, 2023, translated at a foreign exchange rate of \$1.3242 to US\$1.

### 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 June 30, 2023 and December 31, 2022. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.7% (December 31, 2022 – 14.4%).

The total fair value of NND LP at June 30, 2023 was \$43.6 million (December 31, 2022 - \$42.3 million) and a fair value gain of \$3.8 million was recorded during the six months ended June 30, 2023 (2022 – \$1.3 million). A one percentage point increase in the discount rate would decrease the fair value by \$3.0 million. A one percentage point decrease in the discount rate would increase the fair value by \$3.5 million.

For the six months ended June 30, 2023 the DIV Distribution Entitlement was \$2.5 million gross and net of expenses incurred by NND LP (June 30, 2022 - \$2.5 million gross and net of expenses incurred by NND LP).



## DIVERSIFIED ROYALTY CORP.

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### 7. Intangible Assets:

	ML Rights	AIR MILES	SGRS Rights	MRM Rights	Oxford Rights	Stratus Rights	Total
	(a)	(b)	(c)	(d)	(e)	(f) <sup>(1)</sup>	
Balance, December 31, 2022	\$ 175,235	\$ 34,453	\$ 28,274	\$ 38,006	\$ 41,351	\$ 81,273	\$ 398,592
Additions	5,938	-	-	-	-	-	5,938
Foreign Exchange	-	-	-	-	-	(1,812)	(1,812)
Balance, June 30, 2023	\$ 181,173	\$ 34,453	\$ 28,274	\$ 38,006	\$ 41,351	\$ 79,461	\$ 402,718

1) At June 30, 2023, the Stratus Rights were translated at the period end rate of \$1.3242 to US\$1, giving rise to a \$1.8 million foreign exchange loss recorded to other comprehensive income.

On April 21, 2023, DIV and Mr. Lube entered into an amendment (the "LP Amendment") to the amended and restated limited partnership agreement (the "LP Agreement") of DIV's direct subsidiary ML LP to confirm the terms on which five new locations would be added to the Mr. Lube Royalty Pool on May 1, 2023.

The initial consideration paid to Mr. Lube for the estimated net additional royalty revenue from the five new locations was \$4.7 million, representing 80% of the total estimated consideration of \$5.9 million. The initial consideration of \$4.7 million was elected by DIV to be paid in cash (the "2023 Amendment Consideration"). The initial consideration is based on the forecast system sales of such locations for year ending December 31, 2023. As a result of the LP Amendment, the remaining consideration payable for the additional royalty revenue of the five new Mr. Lube locations added to the Mr. Lube Royalty Pool on May 1, 2023 will be paid to Mr. Lube on May 1, 2025 (as opposed to May 1, 2024), and will be adjusted to reflect the actual system sales of these five new locations for the year ending December 31, 2024 (as opposed to the actual system sales for the year ending December 31, 2023).

On May 1, 2021, the Mr. Lube Royalty Pool was adjusted to include royalties from 13 new flagship Mr. Lube locations. The initial consideration previously paid by DIV on May 1, 2021 was \$7.7 million, which represented 80% of the total estimated consideration for those 13 locations, which estimate was based on the forecast system sales of these 13 locations for the 2021 fiscal year. The remaining consideration payable for the net additional royalty revenue related to 7 of the 13 locations of \$1.6 million was paid by DIV to Mr. Lube in cash on May 1, 2022 based on the actual system sales of these locations for the year ending December 31, 2021. The remaining consideration for the net additional royalty revenue related to 6 of the 13 locations was paid by DIV to Mr. Lube in cash on May 1, 2023 (the "2021 True-up Consideration") based on the actual system sales of these locations for the year ending December 31, 2022.

On May 1, 2022, the Mr. Lube Royalty Pool was adjusted to include royalties from six new flagship Mr. Lube locations (the "2022 True-Up Locations") and to remove two locations that had been permanently closed. The initial consideration previously paid by DIV on May 1, 2022 was \$3.4 million, which was paid in the form of 1,083,063 common shares of DIV on the basis of the 20-day volume weighted average closing price of the common shares for the period ended April 25, 2022 of \$3.1592 per common share (the "2022 Share Price"). The initial consideration represented 80% of the total estimated consideration for those 2022 True-Up Locations, which estimate was based on the forecast system sales of these 2022 True-Up Locations for the 2022 fiscal year. The remaining consideration payable for the net additional royalty revenue related to the 2022 True-Up Locations of \$2.6 million was paid by DIV to Mr. Lube in the form of 832,848 common shares valued on the 2022 Share Price and was determined based on the actual system sales of these locations for the year ended December 31, 2022. In accordance with the terms of the LP Agreement, ML LP also made a cash payment to Mr. Lube of approximately \$192,000 representing the amount of the dividends of DIV that would have been received by Mr. Lube had the 832,848 common shares been issued to Mr. Lube on May 1, 2022.

To fund the 2023 Amendment Consideration and the 2021 True-up Consideration, DIV drew an additional \$7.5 million on its Acquisition Facility (defined below, note 8a).

## DIVERSIFIED ROYALTY CORP.

Notes to Condensed Consolidated Interim Financial Statements  
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### 8. Bank loans, net of deferred financing charges:

(a) Acquisition facility:

DIV has a \$50.0 million senior secured credit facility (the "Acquisition Facility") with a Canadian chartered bank, of which \$11.0 million remains outstanding at June 30, 2023 and accrues interest at a rate of prime plus 1%, of which \$3.5 million amortizes over 60 months beginning June 1, 2023 and \$7.5 million (note 7) amortizes over 60 months beginning November 1, 2023. The Acquisition Facility, net of deferred financing fees, is measured at amortized cost with a carrying value of \$10.8 million as at June 30, 2023, of which \$1.7 million is classified as short-term under accounts payable and accrued liabilities on the statement of financial position.

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

As at June 30, 2023, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities <sup>1</sup>	Interest rate	Maturity date	Face value	Carrying value
ML LP term loan	BA + 2.00%	May 1, 2025	\$ 67,870	\$ 67,665
AM LP term loan <sup>2</sup>	BA + 1.95%	Sep 30, 2026	14,962	14,856
SGRS LP term loan	BA + 1.95%	Jun 30, 2026	6,300	6,267
MRLM LP term loan	BA + 1.95%	Jun 24, 2024	10,300	10,272
NNDH LP term loan	BA + 1.90%	Nov 15, 2024	14,500	14,446
OX LP term loan	BA + 1.95%	Apr 27, 2025	9,000	8,959
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	19,863	19,749
			\$ 142,795	\$ 142,214

- 1) Bank loans on the statement of financial position includes \$142.2 million term loan facilities plus \$9.1 million long-term portion of the Acquisition Facility outstanding.
- 2) On March 2, 2023, AM LP made a \$2.4 million partial principal paydown on its \$17.4 million credit facility, reducing the outstanding principal balance to \$15.0 million. During the three months ended June 30, 2023, AM LP made a voluntary further \$0.04 million partial principal paydown on its credit facility. In addition, AM LP is subsequently expected to make a further \$0.4 million partial principal paydown during the third quarter of 2023.

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
MRLM LP term loan	Prime + 0.25%	Jun 24, 2024	500	500
OX LP term loan	Prime + 0.25%	Apr 27, 2025	500	500
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	662	662
			\$ 6,162	\$ 6,162

As at June 30, 2023, the Company was in compliance with all financial covenants associated with its Acquisition Facility, term loan facilities and operating lines of credit.

### 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.

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Notes to Condensed Consolidated Interim Financial Statements  
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### 9. Convertible debentures (continued):

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 to be issued will be determined by dividing \$1,000 of principal amount of the debentures by 95% of the 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 Company's convertible debentures due on December 31, 2022 outstanding plus accrued and unpaid interest at 5.25% up to, but excluding, the Redemption Date. As a result of the partial redemption, \$1.1 million was removed from the equity component of convertible debentures.

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

		June 30, 2023	December 31, 2022
Principal amount - 2027 Debentures	\$	52,500	\$ 52,500
Equity component		(3,074)	(3,074)
Unamortized deferred financing fees		(1,953)	(2,161)
Accretion on liability component		630	372
	\$	48,103	\$ 47,637

### 10. Interest rate swaps:

The following table summarizes the interest rate swap agreements the Company has entered into as of June 30, 2023:

Term loan facilities	Effective date	Maturity date	Fixed interest rate	Notional amount
ML LP	Jul 29, 2022	May 1, 2025	3.75% \$	39,750
ML LP	Dec 15, 2022	May 1, 2025	6.09%	11,250
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
Strat-B LP	Jan 1, 2023	Nov 15, 2027	5.72%	14,897

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### 11. Exchangeable Units and Other:

(a) MRM Units:

Mr. Mikes is entitled to receive distributions from MRM LP on the Initial 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 in the statements of net income. During the six months ended June 30, 2023 MRM LP issued distributions of \$0.07 million (2022 - \$nil) to Mr. Mikes.

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 June 30, 2023 the MRM Units were valued at \$1.0 million (December 31, 2022 - \$1.1 million) based on the DIV closing share price of \$2.84 as at June 30, 2023 (December 31, 2022 - \$2.98), multiplied by the total number of MRM Units of 355,032.

(b) ML Units:

The balance as at June 30, 2023 of \$1.2 million (December 31, 2022 - \$2.6 million) in exchangeable units and other relates to 20% consideration payable to Mr. Lube for the 2023 addition of 5 locations to be paid to Mr. Lube on May 1, 2025. There has been no change in the fair value since December 31, 2022.

### 12. Income taxes:

The income taxes recognized in the statements of net income are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Deferred income tax expense	\$ 1,667	\$ 1,010	\$ 2,850	\$ 2,281
Current income tax expense	1,800	1,433	3,120	2,554
	\$ 3,467	\$ 2,443	\$ 5,970	\$ 4,835

The tax effect of temporary differences that gives rise to the net deferred tax liabilities as at June 30, 2023 and December 31, 2022 are as follows:

	June 30,	December 31,
	2023	2022
Intangible assets	\$ 204	\$ 211
Financing and share issuance costs	627	775
Convertible debentures	(660)	(730)
Other	(1,404)	(1,281)
Intangible assets	(15,822)	(13,180)
Net deferred income tax liability	\$ (17,055)	\$ (14,205)

The deferred tax liability as at June 30, 2023 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately \$259.2 million (December 31, 2022 - \$265.8 million). In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately \$43.1 million at June 30, 2023 (December 31, 2022 - \$44.1 million) is allocated to the Company for tax purposes.

Tax attributes are subject to review, and potential adjustment, by competent authority.

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### 13. Share-based compensation:

(a) Restricted share units (RSU's):

The number of RSUs outstanding as at June 30, 2023 is as follows:

		June 30, 2023
	Number of RSUs	Weighted average grant- date fair value
Balance, beginning of period	550,112	\$ 2.08
Granted	310,053	3.02
Dividends earned	31,873	3.00
Settled	(72,703)	3.01
Balance, end of period	819,335	\$ 2.39
Vested, but not settled	(5,059)	3.18
Unvested	814,276	\$ 2.39

(b) Share options:

The following table summarizes the changes in the Company's share options during the six months ended June 30, 2023:

		June 30, 2023
	Number of options	Weighted average exercise price
Balance, beginning of period	1,583,334	\$ 2.66
Granted	791,667	3.00
Balance, end of period	2,375,001	\$ 2.78

The following tables summarizes information relating to outstanding and exercisable options as at June 30, 2023:

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
May 6, 2026	\$ 2.52	2.85	791,667	527,778
January 1, 2027	2.80	3.51	791,667	263,889
January 1, 2028	3.00	4.51	791,667	-
Balance, June 30, 2023		3.62	2,375,001	791,667

The weighted average assumptions used in calculating the fair values of options granted in 2023 are as follows:

Risk free rate	3.34%
Expected life	5.0 years
Expected volatility	34.59%
Forfeiture rate	Nil
Expected dividends	8.05%

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### 14. Income per share:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Income for the period - basic	\$ 9,094	\$ 7,143	\$ 15,784	\$ 13,339
Interest expense on convertible debentures, net of tax <sup>(1)</sup>	747	991	-	1,823
Income for the period - diluted	\$ 9,841	\$ 8,134	\$ 15,784	\$ 15,162
Weighted average number of shares outstanding - basic	142,449,303	123,701,443	141,993,812	123,184,629
Effective impact of dilutive securities:				
Share options	142,250	106,009	213,114	143,225
RSUs	853,627	677,401	869,672	725,211
Convertible debentures <sup>(1)</sup>	12,962,963	18,372,938	-	21,966,667
Exchangeable MRM units	355,032	355,032	355,032	355,032
Weighted average number of shares outstanding - diluted	156,763,176	143,212,823	143,431,631	146,374,764
Income per share				
Basic	\$ 0.06	\$ 0.06	\$ 0.11	\$ 0.11
Diluted	\$ 0.06	\$ 0.06	\$ 0.11	\$ 0.10

1) For the six months ended June 30, 2023, the interest expense on convertible debentures and the effective impact from convertible debentures on securities is excluded from the income per share calculation as the impact is anti-dilutive.

### 15. Other finance costs, net:

	Three months ended June 30,		Six months ended June 30,	
	2023	2022	2023	2022
Finance income	\$ 34	\$ 61	\$ 111	\$ 69
Foreign exchange loss	14	3	(17)	2
Distributions on Exchangeable Units	(38)	-	(73)	-
Fair value adjustment on promissory note	(95)	-	(187)	-
Accretion expense and other	(141)	(189)	(280)	(470)
Amortization of deferred financing charges	(180)	(206)	(357)	(430)
	\$ (406)	\$ (331)	\$ (803)	\$ (829)

### 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 term loan facilities approximate their fair value as these facilities bear interest at floating market interest rates. The fair value of the term loan facilities is measured using Level 2 inputs. 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.

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**16. Financial instruments (continued):**

The following table presents the carrying amounts of each category of financial assets and liabilities as at June 30, 2023:

As at June 30, 2023	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash	\$ -	\$ 5,525	\$ -	\$ -	\$ -
Royalty and other receivables	-	5,404	-	-	-
Interest rate swap assets	3,933	-	-	3,933	-
Investment in NND LP	43,616	-	-	-	43,616
	\$ 47,549	\$ 10,929	\$ -	\$ 3,933	\$ 43,616
<b>Financial liabilities:</b>					
Accounts payable and accrued liabilities	\$ -	\$ 2,494	\$ -	\$ -	\$ -
Bank loans, net of deferred financing charges	-	151,301	-	-	-
Promissory note	-	3,654	-	-	-
Lease obligation	-	739	-	-	-
Convertible debentures	-	48,103	48,103	-	-
Exchangeable units and other	2,221	-	-	2,221	-
	\$ 2,221	\$ 206,291	\$ 48,103	\$ 2,221	\$ -