

Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three months ended March 31, 2024 and 2023

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

As at March 31, 2024 and December 31, 2023

	Note	March 31, 2024	December 31, 2023
Assets			
Current assets:			
Cash		\$ 4,899	\$ 4,031
Royalty and other receivables	5	5,810	5,857
Income tax receivable		321	328
Prepaid expenses and other		183	342
Interest rate swap assets	10	2,272	2,279
		<u>13,485</u>	<u>12,837</u>
Right-of-use asset and other		685	711
Note receivable		1,278	1,489
Investment in NND LP	6	40,990	40,825
Intangible assets	7	513,272	511,489
		<u>\$ 569,710</u>	<u>\$ 567,351</u>
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 2,099	\$ 1,803
Bank loans, net of deferred financing charges	8	14,475	16,734
		<u>16,574</u>	<u>18,537</u>
Bank loans, net of deferred financing charges	8	155,252	205,375
Convertible debentures	9	48,834	48,586
Promissory notes		34,506	33,763
Exchangeable units and other	11	2,298	2,234
Interest rate swap liabilities	10	286	547
Lease obligation		689	706
Deferred income tax liability	12	20,819	20,199
Shareholders' equity:			
Share capital		313,242	260,142
Contributed surplus		40,740	40,351
Equity component of convertible debentures		5,127	5,127
Accumulated other comprehensive income		1,132	(229)
Accumulated deficit		(69,789)	(67,987)
		<u>290,452</u>	<u>237,404</u>
		<u>\$ 569,710</u>	<u>\$ 567,351</u>

Subsequent events (note 16)

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

For the three months ended March 31, 2024 and 2023

	Note	Three months ended March 31,	
		2024	2023
Royalty income	4	\$ 14,933	\$ 12,214
Management fees		147	127
		15,080	12,341
Expenses:			
Salaries and benefits		629	485
Share-based compensation	13	394	330
General and administration		216	247
Professional fees		167	160
		1,406	1,222
Income from operations		13,674	11,119
Interest expense on credit facilities		(3,920)	(2,810)
Other finance (costs) income, net		(954)	(397)
Fair value adjustment on financial instruments		1,654	1,281
Income before income taxes		10,454	9,193
Income tax expense	12	2,949	2,503
Net income for the period		\$ 7,505	\$ 6,690
Other comprehensive income (loss)			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		1,361	(48)
Other comprehensive income (loss) for the period		\$ 1,361	\$ (48)
Total comprehensive income for the period		\$ 8,866	\$ 6,642
Weighted average number of shares outstanding			
Basic (thousands)	14	152,283	141,533
Diluted (thousands)	14	153,802	143,049
Income per share			
Basic	14	\$ 0.05	\$ 0.05
Diluted	14	\$ 0.05	\$ 0.05

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

As at March 31, 2024 and 2023

	Note	Common shares (thousands)	Share capital	Contributed surplus	Equity component of convertible debentures	Accumulated other comprehensive (loss) income	Accumulated deficit	Total equity
Balance, December 31, 2023		143,871	\$ 260,142	\$ 40,351	\$ 5,127	\$ (229)	\$ (67,987)	\$ 237,404
Common shares issued on public offering	8(a)	20,321	51,825	-	-	-	-	51,825
Common shares issued on DRIP		467	1,275	-	-	-	-	1,275
Share-based compensation - net of RSU's settled		-	-	389	-	-	-	389
Dividends declared		-	-	-	-	-	(9,307)	(9,307)
Comprehensive income		-	-	-	-	1,361	7,505	8,866
Balance, March 31, 2024		164,659	\$ 313,242	\$ 40,740	\$ 5,127	\$ 1,132	\$ (69,789)	\$ 290,452

	Note	Common shares (thousands)	Share capital	Contributed surplus	Equity component of convertible debentures	Accumulated other comprehensive (loss) income	Accumulated deficit	Total equity
Balance, December 31, 2022		141,423	\$ 253,139	\$ 39,776	\$ 5,127	\$ 1,165	\$ (65,319)	\$ 233,888
Common shares issued on DRIP		340	1,042	-	-	-	-	1,042
Share-based compensation - net of RSU's settled		-	-	327	-	-	-	327
Dividends declared		-	-	-	-	-	(8,491)	(8,491)
Comprehensive income		-	-	-	-	(48)	6,690	6,642
Balance, March 31, 2023		141,763	\$ 254,181	\$ 40,103	\$ 5,127	\$ 1,117	\$ (67,120)	\$ 233,408

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

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

For the three months ended March 31, 2024 and 2023

	Note	Three months ended March 31,	
		2024	2023
Operating activities:			
Net income		\$ 7,505	\$ 6,690
Adjustments for:			
Tax expense	12	2,949	2,503
Depreciation expense		26	24
Share-based compensation		394	330
Fair value adjustments on financial instruments		(1,654)	(1,281)
Interest expense on credit facilities		3,920	2,810
Other finance costs (income), net		954	397
Interest paid		(3,133)	(2,033)
Interest received		86	77
Taxes paid		(1,498)	(2,765)
Distributions received from NND LP		1,300	1,273
Distributions paid on Exchangeable MRM Units	11(b)	(41)	(35)
Note receivable		305	-
Changes in non-cash operating items:			
Royalties and management fees receivable		57	23
Amounts receivable		11	(6)
Prepaid expenses and other		(67)	(70)
Accounts payable and accrued liabilities		(264)	(1,007)
Cash flows generated from operating activities		10,850	6,930
Financing activities:			
Proceeds from equity issuance, net of fees	8(a)	51,001	-
Payment of lease obligations		(27)	(26)
RSUs settled in cash		(5)	(3)
Repayment of debt	8(a)	(52,919)	(2,400)
Payment of dividends		(8,032)	(7,449)
Cash flows used in financing activities		(9,982)	(9,878)
Net increase (decrease) in cash		868	(2,948)
Cash, beginning of the period		4,031	7,409
Effect of foreign exchange rate changes on cash		-	(33)
Cash, end of the period		\$ 4,899	\$ 4,428

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

DIVERSIFIED ROYALTY CORP.

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

For the three months ended March 31, 2024 and 2023

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 months ended March 31, 2024 and 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 25th Floor, 700 West Georgia Street, Vancouver, BC, V7Y 1B3. The Company’s common shares are listed on the Toronto Stock Exchange (“TSX”) and traded under the symbol “DIV”.

1. Nature of operations:

The current business of DIV is to acquire royalties from well-managed multi-location businesses and franchisors in North America (“Royalty Partners”). The Company’s Royalty Partners and the respective 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 \$65.906 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 + Tires”): 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 + Tires in its business (the “ML Rights”). The Company granted Mr. Lube + Tires 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 + Tires locations in the royalty pool (the “Mr. Lube + Tires 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 is 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 8). 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 \$5.2 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.

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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\$6.3 million per annum which increases each November at a rate of 5% in 2024, 2025 and 2026 and 4% thereafter.

BarBurrito Restaurants Inc. (“BarBurrito”): BARB Royalties Limited Partnership (“BARB LP”) (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by BarBurrito in its quick service Mexican restaurants in Canada (the “BarBurrito Rights”). The Company granted BarBurrito the licence to use the BarBurrito Rights in exchange for a royalty payment of \$8.3 million per annum which grows at a fixed rate of 4% per annum for the first seven years and, commencing on January 1, 2031, will fluctuate based on the gross sales of the BarBurrito locations in the 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.

Liquidity

Working capital is defined as current assets less current liabilities on the consolidated statements of financial position. As at March 31, 2024, the Company had cash of \$4.9 million and a working capital deficit of \$3.0 million (December 31, 2023 - \$4.0 million cash, and a working capital deficit of \$5.7 million). The working capital deficit includes the NNDH LP term loan (note 9(b)) which matures on November 15, 2024. The Company plans to refinance the NNDH LP term loan and extend the term before the maturity date and expects that the term extension will be completed in 2024. This is based on the Company’s ability to generate positive cash flow from operations, including NND LP, and its history of being able to successfully refinance its debt.

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 IFRS Accounting Standards have been omitted or condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2023.

These condensed consolidated interim financial statements were authorized and approved for issue by the Company’s Board of Directors on May 9, 2024.

(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, 2023.

(c) Functional and presentation currency:

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

The financial statements for each of the Company’s subsidiaries are prepared using their functional currencies. Functional currency is the currency of the primary economic environment in which each of the entities operates. 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.

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

For the three months ended March 31, 2024 and 2023

2. Basis of preparation (continued):

(c) Functional and presentation currency (continued):

Subsidiaries whose functional currencies differ from the presentation currency are translated into Canadian dollars as follows: assets and liabilities at the closing rate as at the reporting date, equity at the historical rate and income and expenses at the average rate of the period. All resulting changes are recognized in other comprehensive income as cumulative translation differences.

3. Change in material accounting policy:

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, 2023 except for certain pronouncements disclosed below.

Amendments to IAS 1 – Classification of liabilities as current or non-current

In October 2022, the IASB issued amendments to IAS 1, Presentation of Financial Statements titled Non-current Liabilities with Covenants. These amendments sought to improve the information that an entity provides when its right to defer settlement of a liability is subject to compliance with covenants within 12 months after the reporting period. These amendments to IAS 1 override and incorporate the previous amendments, Classification of Liabilities as Current or Non-current, issued in January 2020, which clarified that liabilities are classified as either current or non-current depending on the rights that exist at the end of the reporting period. Liabilities should be classified as non-current if a company has a substantive right to defer settlement for at least 12 months at the end of the reporting period. The amendments are effective for annual periods beginning on or after January 1, 2024 and adoption of these amendments did not have an effect on the Company's financial statements.

4. Royalty income:

	Three months ended March 31,	
	2024	2023
Mr. Lube + Tires	\$ 6,585	\$ 5,697
Stratus ¹	2,130	2,034
BarBurrito	2,080	-
Oxford	1,172	1,197
Sutton	1,068	1,047
Mr. Mikes ²	1,006	1,114
AIR MILES®	892	1,125
	\$ 14,933	\$ 12,214

- 1) Stratus royalty income for the three months ended March 31, 2024 and 2023 was US\$1.6 million and US\$1.5 million, respectively, translated at an average foreign exchange rate of \$1.3483 to US\$1 and \$1.3520 to US\$1, respectively.
- 2) For the three months ended March 31, 2024 and 2023, Mr. Mikes royalty income includes payments of \$nil and \$0.05 million, respectively, representing payments of deferred contractual royalty fees, which have been recognized as revenue upon collection.

DIVERSIFIED ROYALTY CORP.

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5. Royalty and other receivables:

	March 31, 2024	December 31, 2023
Mr. Lube + Tires	\$ 2,501	\$ 2,372
BarBurrito	791	791
Stratus ¹	642	628
AIR MILES®	539	737
Oxford	533	483
Mr. Mikes	407	438
Sutton	383	383
Other	7	18
Nurse Next Door	7	7
	\$ 5,810	\$ 5,857

1) Stratus royalty receivable was US\$0.47 million at March 31, 2024 and 2023, translated at the year-end rates of \$1.3540 to US\$1 and \$1.3243 to US\$1, respectively.

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 March 31, 2024 and December 31, 2023. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 15.6% (December 31, 2023 – 15.6%).

The total fair value of NND LP at March 31, 2024 was \$41.0 million (December 31, 2023 - \$40.8 million) and a fair value gain of \$1.5 million was recorded during the three months ended March 31, 2024 (2023 – \$2.1 million). A one percentage point increase in the discount rate would decrease the fair value by \$2.6 million (2023 - \$3.0 million). A one percentage point decrease in the discount rate would increase the fair value by \$3.1 million (2023 - \$3.5 million).

For the three months ended March 31, 2024 the DIV Distribution Entitlement was \$1.3 million gross and net of expenses incurred by NND LP (March 31, 2023 - \$1.3 million gross and net of expenses incurred by NND LP).

7. Intangible assets:

	ML Rights (a)	AIR MILES Rights (b)	SGRS Rights (c)	MRM Rights (d)	Oxford Rights (e)	Stratus Rights (f) ⁽¹⁾	BarBurrito Rights (g)	Total
Balance, December 31, 2023	\$ 181,173	\$ 30,675	\$ 27,653	\$ 42,496	\$ 41,351	\$ 79,467	\$ 108,674	\$ 511,489
Foreign exchange	-	-	-	-	-	1,783	-	1,783
Balance, March 31, 2024	\$ 181,173	\$ 30,675	\$ 27,653	\$ 42,496	\$ 41,351	\$ 81,250	\$ 108,674	\$ 513,272

1) At March 31, 2024, the Stratus Rights were translated at the period-end rate of \$1.3540 to US\$1, giving rise to a \$1.8 million foreign exchange gain recorded to other comprehensive income. At December 31, 2023, the Stratus Rights were translated at the year-end rate of \$1.3243 to US\$1, giving rise to a \$1.8 million foreign exchange loss recorded to other comprehensive income.

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, that matures on April 20, 2026. As at December 31, 2023 there was \$49.1 million outstanding on the Acquisition Facility. On January 4 and February 2, 2024, the Company partially repaid \$0.45 million, respectively, on the Acquisition Facility. On February 23, 2024, DIV closed its bought deal public offering of 20,320,500 common shares (the "2024 Bought Deal Offering"), including 2,650,500 common shares issued pursuant to the full exercise of the over-allotment option, at a price of \$2.66 per common share for total gross proceeds of approximately \$54.0 million. On February 26, 2024, DIV used the incremental cash from the net proceeds of the 2024 Bought Deal Offering to pay down in full the remaining \$48.2 million outstanding balance on the Acquisition Facility. As at March 31, 2024 there was nil outstanding on the Acquisition Facility.

DIVERSIFIED ROYALTY CORP.

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

For the three months ended March 31, 2024 and 2023

8. Bank loans, net of deferred financing charges (continued):

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

As at March 31, 2024, the Company had the following short and long-term loan facilities:

Short-term loan facilities	Interest rate	Maturity date	Face value	Carrying value
NNDH LP term loan ¹	BA + 1.90%	Nov 15, 2024	14,500	14,475
			\$ 14,500	\$ 14,475

Long-term loan facilities	Interest rate	Maturity date	Face value	Carrying value
ML LP term loan ¹	BA + 2.00%	May 1, 2025	\$ 79,870	\$ 79,731
AM LP term loan ²	CORRA + 2.25%	Sep 30, 2026	10,127	10,031
SGRS LP term loan ³	BA + 1.95%	Jun 30, 2026	6,300	6,274
OX LP term loan ¹	CDOR + 1.95%	Apr 27, 2025	9,000	8,976
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	20,310	20,211
BARB LP term loan	CDOR + 2.50%	Oct 4, 2026	10,000	9,918
MRLM LP term loan	CORRA + 2.80%	Dec 27, 2026	10,300	10,242
DIV term loan ¹	CDOR + 2.50%	Apr 4, 2025	10,000	9,978
			\$ 155,907	\$ 155,362

1) See Subsequent events (Note 16).

2) During the three months ended March 31, 2024, AM LP made partial principal paydowns of \$3.8 million (for the year ended December 31, 2023 - \$3.2 million), in aggregate, on its \$17.4 million credit facility, reducing the balance from \$13.9 million to \$10.1 million.

3) On April 15, 2024, due to the amendment of the credit facility agreement, the interest rate on the SGRS LP term loan was subsequently amended to CORRA + 2.25%.

As at March 31, 2024, 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	BA + 2.00%	May 1, 2025	\$ 1,000	\$ 1,000
AM LP term loan	CORRA + 2.25%	Sep 30, 2026	3,000	3,000
SGRS LP term loan ²	BA + 1.95%	Jun 30, 2026	500	500
MRLM LP term loan	CORRA + 2.80%	Dec 27, 2026	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	677	677
BARB LP term loan	CDOR + 2.50%	Oct 4, 2026	500	500
			\$ 6,677	\$ 6,677

As at March 31, 2024 and 2023, the Company was in compliance with all financial covenants associated with its 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 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. 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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9. Convertible debentures (continued):

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

		March 31, 2024	December 31, 2023
Principal amount - 2027 Debentures	\$	52,500	\$ 52,500
Equity component		(3,074)	(3,074)
Unamortized deferred financing fees		(1,627)	(1,738)
Accretion on liability component		1,036	898
	\$	48,834	\$ 48,586

10. Interest rate swaps:

The following table summarizes the interest rate swap agreements the Company has entered into as of March 31, 2024:

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
ML LP	Sept 15, 2023	May 1, 2025	7.58%	9,000
AM LP	Aug 19, 2022	Sep 30, 2026	5.39%	8,700
MRM LP ¹	Jul 25, 2019	Jun 24, 2024	4.60%	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%	15,233
BARB LP	Nov 2, 2023	Oct 4, 2026	7.21%	7,500

1) On January 24, 2024, due to the amendment of the credit facility agreement, the credit spread on the swapped portion of the MRM LP term loan was subsequently increased by 0.55%, resulting in a fixed interest rate of 4.60%.

11. Exchangeable units and other:

The following table summarizes exchangeable units and other as at March 31, 2024 and December 31, 2023:

		March 31, 2024	December 31, 2023
Mr. Lube + Tires Class B units	\$	1,181	\$ 1,181
Mr. Mike's Class B units		516	484
Mr. Mike's Class C units		516	484
BarBurrito minority interest		52	52
Oxford minority interest		33	33
	\$	2,298	\$ 2,234

(a) ML Units:

The balance as at March 31, 2024 of \$1.2 million (December 31, 2023 - \$1.2 million) in exchangeable units and other relates to 20% consideration payable to Mr. Lube + Tires for the 2023 addition of 5 locations to be paid to Mr. Lube + Tires on May 1, 2025.

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(Tabular amounts expressed in thousands of Canadian dollars)

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11. Exchangeable units and other (continued):

(b) 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 three months ended March 31, 2024 MRM LP issued distributions of \$0.04 million (2023 - \$0.04 million) 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 March 31, 2024 the MRM Units were valued at \$1.0 million (December 31, 2023 - \$1.0 million) based on the DIV closing share price of \$2.91 as at March 31, 2024 (December 31, 2023 - \$2.73), multiplied by the total number of MRM Units of 355,032.

12. Income taxes:

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

	Three months ended March 31,	
	2024	2023
Deferred income tax expense	\$ 1,445	\$ 1,183
Current income tax expense	1,504	1,320
	<u>\$ 2,949</u>	<u>\$ 2,503</u>

The tax effect of temporary differences that gives rise to the net deferred tax liabilities as at March 31, 2024 and December 31, 2023 are as follows:

	March 31,	December 31,
	2024	2023
Financing and share issuance costs	\$ 1,198	\$ 478
Convertible debentures	(550)	(588)
Other	(2,111)	(2,226)
Intangible assets	(19,356)	(17,863)
Net deferred income tax liability	<u>\$ (20,819)</u>	<u>\$ (20,199)</u>

The deferred tax liability as at March 31, 2024 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately \$353.2 million (December 31, 2023 - \$358.8 million). In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately \$41.5 million at March 31, 2024 (December 31, 2023 - \$42.0 million) is allocated to the Company for tax purposes.

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

13. Share-based compensation:

The Company has a long-term incentive plan (the "Plan") available to both employees and non-employees as a form of retention and incentive compensation. Under the Plan, the maximum number of common shares available to be granted, as restricted share units, deferred share units or share options, is 7% of the issued and outstanding common shares of the Company at the time of the grant.

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13. Share-based compensation (continued):

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

Under the Plan, the Company can issue RSU's whereby each RSU is equal in value to one common share of the Company and is entitled to dividends that would arise thereon if it was an issued and outstanding common share. The notional dividends are recorded as additional issuance of RSU's during the life of the RSU. Currently, all the outstanding RSU's will be settled in common shares, unless the RSU holder elects to settle the RSU's in cash, in certain instances. The share-based compensation expense for RSU's for the three months ended March 31, 2024 was approximately \$0.3 million (2023 - \$0.2 million).

The number of RSU's outstanding as at March 31, 2024 is as follows:

	March 31, 2024	
	Number of RSUs	Weighted average grant- date fair value
Balance, beginning of period	627,482	\$ 2.29
Granted	279,972	2.72
Dividends earned	19,831	2.80
Settled	(1,924)	2.72
Balance, end of period	925,361	\$ 2.43
Vested, but not settled	(5,059)	3.18
Unvested	920,302	\$ 2.43

(b) Deferred share units (DSU's):

Under the Plan, the Company can issue DSU's whereby each DSU is equal in value to one common share of the Company and is entitled to dividends that would arise thereon if it was an issued and outstanding common share. The notional dividends are recorded as additional issuance of DSU's during the life of the DSU. Currently, all the outstanding DSU's will be settled in common shares. DSU's are granted to directors of the Company and are settled in common shares when the individual ceases to be a director of the Company, either voluntarily or involuntarily. DSU's vest in the year that they are granted. The share-based compensation expense for DSU's for the three months ended March 31, 2024 was approximately \$0.02 million (2023 - \$nil).

The number of DSU's outstanding as at March 31, 2024 is as follows:

	March 31, 2024	
	Number of DSUs	Weighted average grant- date fair value
Balance, beginning of period	-	\$ -
Granted	156,559	2.89
Dividends earned	-	-
Settled	-	-
Balance, end of period	156,559	\$ 2.89

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13. Share-based compensation (continued):

(c) Share options:

The share-based compensation expense for share options for the three months ended March 31, 2024 was approximately \$0.1 million (2023 - \$0.1 million). The following table summarizes the changes in the Company's share options during the three months ended March 31, 2024:

	March 31, 2024	
	Number of options	Weighted average exercise price
Balance, beginning of period	2,375,001	\$ 2.78
Granted	2,500,000	2.72
Expired	-	-
Balance, end of period	4,875,001	\$ 2.75

The following table summarize information relating to outstanding and exercisable options as at March 31, 2024:

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
May 6, 2026	\$ 2.52	2.10	791,667	791,667
January 1, 2027	2.80	2.76	791,667	527,778
January 1, 2028	3.00	3.76	791,667	263,889
January 1, 2029	2.72	4.76	2,500,000	-
Balance, March 31, 2024		3.84	4,875,001	1,583,334

The weighted average assumptions used in calculating the fair values of options granted in 2024 are as follows:

Risk free rate	3.25%
Expected life	5.0 years
Expected volatility	32.61%
Forfeiture rate	Nil
Expected dividends	9.01%

14. Income per share:

	Three months ended March 31,	
	2024	2023
Income for the period - basic and diluted	\$ 7,505	\$ 6,690
Weighted average number of shares outstanding - basic (thousands)	152,283	141,533
Effective impact of dilutive securities (thousands):		
Share options	82	298
RSUs	925	863
DSUs	157	-
Exchangeable MRM units	355	355
Weighted average number of shares outstanding - diluted (thousands)	153,802	143,049
Income per share		
Basic	\$ 0.05	\$ 0.05
Diluted	\$ 0.05	\$ 0.05

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15. 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, note receivable 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 presents the carrying amounts of each category of financial assets and liabilities as at March 31, 2024:

As at March 31, 2024	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
Financial assets:					
Cash	\$ -	\$ 4,899	\$ 4,899	\$ -	\$ -
Royalty and other receivables	-	5,810	-	5,810	-
Interest rate swap assets	2,272	-	-	2,272	-
Note receivable	-	1,278	-	1,278	-
Investment in NND LP	40,990	-	-	-	40,990
	\$ 43,262	\$ 11,987	\$ 4,899	\$ 9,360	\$ 40,990
Financial liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ 2,099	\$ -	\$ 2,099	\$ -
Bank loans, net of deferred financing charges	-	169,727	-	169,727	-
Promissory notes	-	34,506	-	34,506	-
Interest rate swap liabilities	286	-	-	286	-
Lease obligation	-	689	-	689	-
Convertible debentures	-	48,834	48,834	-	-
Exchangeable units and other	2,298	-	-	2,298	-
	\$ 2,584	\$ 255,855	\$ 48,834	\$ 209,605	\$ -

16. Subsequent events:

Refer to subsequent events below as well as subsequent events referred to in other notes throughout the financial statements:

(a) ML LP credit facility amendment:

On May 8, 2024, ML LP amended the terms of its credit agreement to extend the maturity date to May 8, 2027, from May 1, 2025. ML LP also amended its credit facility agreement with an increase to the term loan facility from \$79.9 million to \$84.9 million which included a reduction in the credit spread by 0.10%. The proceeds from the increase to the ML LP term loan were drawn to fund working capital and for general corporate purposes.

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16. Subsequent events (continued):

(b) OX LP credit facility amendment:

On May 8, 2024, OX LP amended the terms of its credit agreement to extend the maturity date to May 8, 2027, from April 27, 2025. OX LP amended its credit facility agreement with an increase to the term loan facility from \$9.0 million to \$11.0 million, the proceeds of which were drawn to fund working capital and for general corporate purposes.

(c) DIV term loan amendment:

On May 8, 2024, DIV amended the terms of its senior credit agreement to extend the maturity date on its \$10.0 million term loan to April 4, 2026 from April 4, 2025.

(d) NND LP commitment letter:

On May 7, 2024, NND LP signed a commitment letter to amend the terms of its credit agreement to extend the maturity date to May 15, 2026, from November 15, 2024, which includes an increase in the credit spread by 0.35%.