

Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and six months ended June 30, 2024 and 2023

(Unaudited)

DIVERSIFIED ROYALTY CORP.

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

As at June 30, 2024 and December 31, 2023

	Note	June 30, 2024	December 31, 2023
Assets			
Current assets:			
Cash		\$ 12,508	\$ 4,031
Royalty and other receivables	5	6,176	5,857
Income tax receivable		-	328
Prepaid expenses and other		116	342
Interest rate swap assets	10	1,657	2,279
		20,457	12,837
Right-of-use asset and other		667	711
Note receivable		1,298	1,489
Investment in NND LP	6	40,949	40,825
Intangible assets	7	514,106	511,489
		\$ 577,477	\$ 567,351
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		\$ 3,568	\$ 1,803
Bank loans, net of deferred financing charges	8	-	16,734
		3,568	18,537
Long-term accrued liabilities		201	-
Bank loans, net of deferred financing charges	8	175,244	205,375
Convertible debentures	9	49,087	48,586
Promissory notes		35,264	33,763
Exchangeable units and other	11	1,047	2,234
Interest rate swap liabilities	10	87	547
Lease obligation		672	706
Deferred income tax liability	12	22,026	20,199
Shareholders' equity:			
Share capital		314,824	260,142
Contributed surplus		40,447	40,351
Equity component of convertible debentures		5,127	5,127
Accumulated other comprehensive income		1,767	(229)
Accumulated deficit		(71,884)	(67,987)
		290,281	237,404
		\$ 577,477	\$ 567,351

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 and six months ended June 30, 2024 and 2023

	Note	Three months ended June 30,		Six months ended June 30,	
		2024	2023	2024	2023
Royalty income	4	\$ 16,632	\$ 14,023	\$ 31,565	\$ 26,237
Management fees		149	126	296	253
		16,781	14,149	31,861	26,490
Expenses:					
Salaries and benefits		680	610	1,309	1,095
Share-based compensation	13	536	350	930	680
General and administration		350	277	566	524
Professional fees		210	189	377	349
		1,776	1,426	3,182	2,648
Income from operations		15,005	12,723	28,679	23,842
Interest expense on credit facilities		(3,405)	(2,958)	(7,325)	(5,768)
Other finance costs, net		(1,020)	(406)	(1,974)	(803)
Fair value adjustment on financial instruments		905	3,202	2,559	4,483
Income before income taxes		11,485	12,561	21,939	21,754
Income tax expense	12	3,273	3,467	6,222	5,970
Net income for the period		\$ 8,212	\$ 9,094	\$ 15,717	\$ 15,784
Other comprehensive income (loss)					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment		635	(1,344)	1,996	(1,392)
Other comprehensive income (loss) for the period		\$ 635	\$ (1,344)	\$ 1,996	\$ (1,392)
Total comprehensive income for the period		\$ 8,847	\$ 7,750	\$ 17,713	\$ 14,392
Weighted average number of shares outstanding					
Basic (thousands)	14	164,869	142,449	158,576	141,994
Diluted (thousands)	14	166,462	156,763	160,128	143,432
Income per share					
Basic	14	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.11
Diluted	14	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.11

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DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Changes in Equity
(Expressed in thousands of Canadian dollars, except for share amounts)

As at June 30, 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	51,821	-	-	-	-	51,821
Common shares issued on DRIP		1,020	2,745	-	-	-	-	2,745
Common shares issued on RSU's settled		56	116	(159)	-	-	-	(43)
Share-based compensation - net of RSU's settled		-	-	910	-	-	-	910
Reclassification of RSUs vested		-	-	(655)	-	-	-	(655)
Dividends declared		-	-	-	-	-	(19,614)	(19,614)
Comprehensive income		-	-	-	-	1,996	15,717	17,713
Balance, June 30, 2024		165,268	\$ 314,824	\$ 40,447	\$ 5,127	\$ 1,767	\$ (71,884)	\$ 290,281
Balance, December 31, 2022		141,423	\$ 253,139	\$ 39,776	\$ 5,127	\$ 1,165	\$ (65,319)	\$ 233,888
Common shares issued on DRIP		697	2,035	-	-	-	-	2,035
Common shares issued on RSU's settled		57	72	(90)	-	-	-	(18)
Share-based compensation - net of RSU's settled		-	-	651	-	-	-	651
Dividends declared		-	-	-	-	-	(17,039)	(17,039)
Settlement of consideration payable	7	833	2,631	-	-	-	-	2,631
Comprehensive income		-	-	-	-	(1,392)	15,784	14,392
Balance, June 30, 2023		143,010	\$ 257,877	\$ 40,337	\$ 5,127	\$ (227)	\$ (66,574)	\$ 236,540

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DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in thousands of Canadian dollars)

For the three and six months ended June 30, 2024 and 2023

	Note	Three months ended June 30,		Six months ended June 30,	
		2024	2023	2024	2023
Operating activities:					
Net income	\$	8,212	\$ 9,094	\$ 15,717	15,784
Adjustments for:					
Tax expense	12	3,273	3,467	6,222	5,970
Depreciation expense		25	26	51	50
Share-based compensation		537	350	931	680
Fair value adjustments on financial instruments		(905)	(3,202)	(2,559)	(4,483)
Interest expense on credit facilities		3,405	2,958	7,325	5,768
Other finance costs (income), net		1,021	406	1,975	803
Interest paid		(3,805)	(3,106)	(6,938)	(5,139)
Interest received		100	34	186	111
Taxes paid		(1,501)	(1,641)	(2,999)	(4,406)
Distributions received from NND LP		1,291	1,261	2,591	2,534
Distributions paid on Exchangeable MRM Units	11(b)	(33)	(38)	(74)	(73)
Note receivable		-	-	305	-
Changes in non-cash operating items:					
Royalties and management fees receivable		(358)	188	(301)	211
Amounts receivable		327	(47)	338	(53)
Prepaid expenses and other		(16)	(113)	(83)	(183)
Accounts payable and accrued liabilities		(368)	(3,575)	(632)	(4,582)
Cash flows generated from operating activities		11,205	6,062	22,055	12,992
Financing activities:					
Proceeds from equity issuance, net of fees	8(a)	(5)	-	50,996	-
Proceeds from issuance of debt, net of fees	8(b)	6,707	7,496	6,707	7,496
Payment of lease obligations		(27)	(27)	(54)	(53)
RSUs settled in cash		-	(44)	(5)	(47)
Payment of dividends		(8,837)	(7,556)	(16,869)	(15,005)
Repayment of debt	8(a)	(1,426)	(96)	(54,345)	(2,496)
Cash flows used in financing activities		(3,588)	(227)	(13,570)	(10,105)
Investing activities:					
Purchase of fixed assets		(8)	(1)	(8)	(1)
Additions to intangible assets	7	-	(4,754)	-	(4,754)
Cash flows used in investing activities		(8)	(4,755)	(8)	(4,755)
Net increase (decrease) in cash		7,609	1,080	8,477	(1,868)
Cash, beginning of the period		4,899	4,428	4,031	7,409
Effect of foreign exchange rate changes on cash		-	17	-	(16)
Cash, end of the period	\$	12,508	\$ 5,525	\$ 12,508	5,525

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 and six months ended June 30, 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 and six months ended June 30, 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 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 \$5.2 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.

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

For the three and six months ended June 30, 2024 and 2023

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.

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 August 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.

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.

DIVERSIFIED ROYALTY CORP.

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

For the three and six months ended June 30, 2024 and 2023

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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Mr. Lube + Tires	\$ 8,122	\$ 7,495	\$ 14,707	\$ 13,192
Stratus ¹	2,161	2,020	4,291	4,054
BarBurrito	2,080	-	4,160	-
Oxford	1,202	1,227	2,374	2,424
Sutton	1,067	1,047	2,135	2,093
Mr. Mikes ²	1,072	1,122	2,078	2,237
AIR MILES®	928	1,112	1,820	2,237
	\$ 16,632	\$ 14,023	\$ 31,565	\$ 26,237

- 1) Stratus royalty income for the three and six months ended June 30, 2024 and 2023 was US\$1.6 million and US\$3.2 million, respectively (2023 - US\$1.5 million and US\$3.0 million, respectively) translated at an average foreign exchange rate of \$1.3682 and \$1.3583 to US\$1, respectively (2023 - \$1.3430 and \$1.3475 to US\$1, respectively).
- 2) For the six months ended June 30, 2024 and 2023, Mr. Mikes royalty income includes payments of \$nil and \$0.09 million, respectively, representing payments of deferred contractual royalty fees, which have been recognized as revenue upon collection.

5. Royalty and other receivables:

	June 30,	December 31,
	2024	2023
Mr. Lube + Tires	\$ 2,673	\$ 2,372
BarBurrito	791	791
Stratus ¹	648	628
AIR MILES®	637	737
Oxford	526	483
Mr. Mikes	503	438
Sutton	383	383
Other	7	18
Nurse Next Door	7	7
	\$ 6,176	\$ 5,857

- 1) Stratus royalty receivable was US\$0.47 million at June 30, 2024, translated at the period-end rate of \$1.3679 to US\$1 (December 31, 2023 \$0.47 million, translated at the year-end rate of \$1.3243 to US\$1).

DIVERSIFIED ROYALTY CORP.

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

For the three and six months ended June 30, 2024 and 2023

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, 2024 and December 31, 2023. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 15.9% (December 31, 2023 – 15.6%).

The total fair value of NND LP at June 30, 2024 was \$40.9 million (December 31, 2023 - \$40.8 million) and a fair value gain of \$2.7 million was recorded during the six months ended June 30, 2024 (2023 – \$3.8 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 \$3.0 million (2023 - \$3.5 million).

For the six months ended June 30, 2024 the DIV Distribution Entitlement was \$2.6 million gross and net of expenses incurred by NND LP (June 30, 2023 - \$2.5 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	-	-	-	-	-	2,617	-	2,617
Balance, June 30, 2024	\$ 181,173	\$ 30,675	\$ 27,653	\$ 42,496	\$ 41,351	\$ 82,084	\$ 108,674	\$ 514,106

1) At June 30, 2024, the Stratus Rights were translated at the period-end rate of \$1.3679 to US\$1, giving rise to a \$2.6 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.

On May 1, 2023, the Mr. Lube + Tires Royalty Pool was adjusted to include royalties from five new flagship Mr. Lube + Tires locations (the "2023 Locations"). The initial consideration (the "2023 consideration") paid to Mr. Lube + Tires on May 1, 2023 for the estimated net additional royalty revenue from the 2023 Locations was \$4.7 million, representing 80% of the total estimated consideration of \$5.9 million, which was based on the forecast system sales of these 2023 Locations for the 2023 fiscal year. The remaining consideration payable (the "2023 True-up Consideration") for the additional royalty revenue of the 2023 Locations will be paid to Mr. Lube + Tires 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). The 2023 True-up Consideration was originally recorded as long-term under exchangeable units and other and was reclassified as short-term under accounts payable and accrued liabilities on the statement of financial position as at June 30, 2024.

On May 1, 2022, the Mr. Lube + Tires Royalty Pool was adjusted to include royalties from six new flagship Mr. Lube + Tires locations (the "2022 Locations") and to remove two locations that had been permanently closed. The initial consideration previously paid by DIV on May 1, 2022 represented 80% of the total estimated consideration for those 2022 Locations, which estimate was based on the forecast system sales of these 2022 Locations for the 2022 fiscal year. The remaining consideration payable for the net additional royalty revenue related to the 2022 Locations of \$2.6 million was paid by DIV on May 1, 2023 to Mr. Lube + Tires 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.

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 June 30, 2024 there was nil outstanding on the Acquisition Facility.

DIVERSIFIED ROYALTY CORP.

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(Tabular amounts expressed in thousands of Canadian dollars)

For the three and six months ended June 30, 2024 and 2023

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

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

As at June 30, 2024, the Company had the following long-term loan facilities:

Long-term loan facilities	Interest rate	Maturity date	Face value	Carrying value
ML LP term loan ¹	CORRA + 2.20%	May 8, 2027	\$ 84,870	\$ 84,497
AM LP term loan ²	CORRA + 2.25%	Sep 30, 2026	8,700	8,613
SGRS LP term loan ³	CORRA + 2.25%	Jun 30, 2026	6,300	6,277
OX LP term loan ¹	CORRA + 2.25%	May 8, 2027	11,000	10,941
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	20,518	20,425
BARB LP term loan ¹	CORRA + 2.80%	Oct 4, 2026	10,000	9,924
MRM LP term loan	CORRA + 2.80%	Dec 27, 2026	10,300	10,247
NNDH LP term loan ⁴	CORRA + 2.55%	May 15, 2026	14,500	14,453
DIV term loan ¹	CORRA + 2.80%	Apr 4, 2026	10,000	9,963
			\$ 176,188	\$ 175,340

- 1) On May 8, 2024, ML LP, OX LP, DIV and BARB LP amended the terms of their respective credit agreements. ML LP extended the maturity date on its term loan to May 8, 2027, increased the term loan facility from \$79.9 million to \$84.9 million, and the interest rate was amended to CORRA + 2.20%. OX LP extended the maturity date on its term loan to May 8, 2027, increased the term loan facility from \$9.0 million to \$11.0 million, and the interest rate was amended to CORRA + 2.25%. DIV extended the maturity date on its term loan to April 4, 2026 and the interest rate was amended to CORRA + 2.80%. BARB LP interest rate was amended to CORRA + 2.80%. All CORRA based loans are inclusive of a CORRA adjustment rate of 0.29547%, which has been adjusted for the credit spread.
- 2) During the six months ended June 30, 2024, AM LP made partial principal paydowns of \$5.2 million, in aggregate, on its credit facility, reducing the balance to \$8.7 million. During the six months ended June 30, 2023, AM LP made a \$2.4 million partial principal paydown credit facility.
- 3) On April 15, 2024, the interest rate on the SGRS LP term loan was amended to CORRA + 2.25%.
- 4) On June 11, 2024, NND LP amended the terms of its credit agreement to extend the maturity date to May 15, 2026, and the interest rate was amended to CORRA+ 2.55%.

As at June 30, 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	CORRA + 2.20%	May 8, 2027	\$ 1,000	\$ 1,000
AM LP term loan	CORRA + 2.25%	Sep 30, 2026	3,000	3,000
SGRS LP term loan	CORRA + 2.25%	Jun 30, 2026	500	500
MRM LP term loan	CORRA + 2.80%	Dec 27, 2026	500	500
OX LP term loan	Prime + 0.75%	May 8, 2027	500	500
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	684	684
BARB LP term loan	CORRA + 2.80%	Oct 4, 2026	500	500
			\$ 6,684	\$ 6,684

As at June 30, 2024, 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:

		June 30, 2024	December 31, 2023
Principal amount - 2027 Debentures	\$	52,500	\$ 52,500
Equity component		(3,074)	(3,074)
Unamortized deferred financing fees		(1,515)	(1,738)
Accretion on liability component		1,176	898
	\$	49,087	\$ 48,586

10. Interest rate swaps:

The following table summarizes the interest rate swap agreements the Company has entered into as of June 30, 2024:

Term loan facilities	Effective date	Maturity date	Fixed interest rate	Notional amount
ML LP ¹	Jul 29, 2022	May 1, 2025	3.65%	\$ 39,750
ML LP ¹	Dec 15, 2022	May 1, 2025	5.99%	11,250
ML LP ¹	Sept 15, 2023	May 1, 2025	7.48%	9,000
AM LP	Aug 19, 2022	Sep 30, 2026	5.39%	8,700
NNDH LP ²	Feb 12, 2020	Nov 15, 2024	4.33%	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%	15,389
BARB LP	Nov 2, 2023	Oct 4, 2026	7.21%	7,500

1) On May 8, 2024, due to the amendment of the credit facility agreement, the credit spread on the swapped portion of the ML LP term loan was subsequently decreased by 0.10%, resulting in a fixed interest rate of 3.65%, 5.99% and 7.48% on its respective swap arrangements.

2) On June 11, 2024, due to the amendment of the credit facility agreement, the credit spread on the swapped portion of the NND LP term loan was subsequently increased by 0.35%, resulting in a fixed interest rate of 4.33%.

11. Exchangeable units and other:

The following table summarizes exchangeable units and other as at June 30, 2024 and December 31, 2023:

	June 30, 2024	December 31, 2023
Mr. Mike's Class B units	\$ 481	\$ 484
Mr. Mike's Class C units	481	484
BarBurrito minority interest	52	52
Oxford minority interest	33	33
Mr. Lube + Tires Class B units	-	1,181
	\$ 1,047	\$ 2,234

(a) ML Units:

\$1.2 million in exchangeable units and other related to the 2023 True-up Consideration (note 7) was originally recorded as long-term under exchangeable units and other and was reclassified as short-term under accounts payable and accrued liabilities on June 30, 2024 as the consideration is due within twelve months.

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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 six months ended June 30, 2024 MRM LP issued distributions of \$0.07 million (2023 - \$0.07 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 June 30, 2024 the MRM Units were valued at \$1.0 million (December 31, 2023 - \$1.0 million) based on the DIV closing share price of \$2.71 as at June 30, 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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Deferred income tax expense	\$ 1,207	\$ 1,667	\$ 2,652	\$ 2,850
Current income tax expense	2,066	1,800	3,570	3,120
	\$ 3,273	\$ 3,467	\$ 6,222	\$ 5,970

The tax effect of temporary differences that gives rise to the net deferred tax liabilities as at June 30, 2024 and December 31, 2023 are as follows:

	June 30,	December 31,
	2024	2023
Financing and share issuance costs	\$ 1,077	\$ 478
Convertible debentures	(512)	(588)
Other	(1,801)	(2,226)
Intangible assets	(20,790)	(17,863)
Net deferred income tax liability	\$ (22,026)	\$ (20,199)

The deferred tax liability as at June 30, 2024 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately \$348.4 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 \$40.9 million at June 30, 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 and six months ended June 30, 2024 was approximately \$0.3 million and \$0.5 million, respectively (2023 - \$0.3 million and \$0.5 million, respectively).

The number of RSU's outstanding as at June 30, 2024 is as follows:

	June 30, 2024	
	Number of RSUs	Weighted average grant- date fair value
Balance, beginning of period	627,482	\$ 2.29
Granted	292,308	2.72
Dividends earned	39,037	2.77
Settled	(79,216)	2.82
Balance, end of period	879,611	\$ 2.41
Vested, but not settled	(53,355)	2.86
Unvested	826,256	\$ 2.38

(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 and six months ended June 30, 2024 was approximately \$0.2 million and \$0.2 million (2023 - \$nil and \$nil, respectively).

The number of DSU's outstanding as at June 30, 2024 is as follows:

	June 30, 2024	
	Number of DSUs	Weighted average grant- date fair value
Balance, beginning of period	-	\$ -
Granted	177,172	2.86
Dividends earned	3,587	2.74
Settled	-	-
Balance, end of period	180,759	\$ 2.86

(c) Share options:

The share-based compensation expense for share options for the three and six months ended June 30, 2024 was approximately \$0.1 million and \$0.2 million, respectively (2023 - \$0.1 million and \$0.2 million, respectively).

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13. Share-based compensation (continued):

(c) Share options (continued):

The following table summarizes the changes in the Company's share options during the six months ended June 30, 2024:

	June 30, 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 June 30, 2024:

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
May 6, 2026	\$ 2.52	1.85	791,667	791,667
January 1, 2027	2.80	2.51	791,667	527,778
January 1, 2028	3.00	3.51	791,667	263,889
January 1, 2029	2.72	4.51	2,500,000	-
Balance, June 30, 2024		3.59	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 June 30,		Six months ended June 30,	
	2024	2023	2024	2023
Income for the period - basic and diluted	\$ 8,212	\$ 9,094	\$ 15,717	\$ 15,784
Interest expense on convertible debentures, net of tax ⁽¹⁾	-	747	-	-
Income for the year - diluted	\$ 8,212	\$ 9,841	\$ 15,717	\$ 15,784
Weighted average number of shares outstanding - basic (thousands)	164,869	142,449	158,576	141,994
Effective impact of dilutive securities (thousands):				
Share options	138	142	78	213
RSUs	919	854	938	870
DSUs	181	-	181	-
Convertible debentures ⁽¹⁾	-	12,963	-	-
Exchangeable MRM units	355	355	355	355
Weighted average number of shares outstanding - diluted (thousands)	166,462	156,763	160,128	143,432
Income per share				
Basic	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.11
Diluted	\$ 0.05	\$ 0.06	\$ 0.10	\$ 0.11

1) For the three months ended June 30, 2023, the interest expense on convertible debentures and the effective impact from convertible debentures on securities is included into the income per share calculation as the impact is dilutive. For all other periods, the impacts are anti-dilutive and have been excluded from the income per share calculation.

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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 June 30, 2024:

As at June 30, 2024	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
Financial assets:					
Cash	\$ -	\$ 12,508	\$ 12,508	\$ -	\$ -
Royalty and other receivables	-	6,176	-	6,176	-
Interest rate swap assets	1,657	-	-	1,657	-
Note receivable	-	1,298	-	1,298	-
Investment in NND LP	40,949	-	-	-	40,949
	\$ 42,606	\$ 19,982	\$ 12,508	\$ 9,131	\$ 40,949
Financial liabilities:					
Accounts payable and accrued liabilities	\$ -	\$ 3,568	\$ -	\$ 3,568	\$ -
Bank loans, net of deferred financing charges	-	175,244	-	175,244	-
Promissory notes	-	35,264	-	35,264	-
Interest rate swap liabilities	87	-	-	87	-
Lease obligation	-	672	-	672	-
Convertible debentures	-	49,087	49,087	-	-
Exchangeable units and other	1,047	-	-	1,047	-
	\$ 1,134	\$ 263,835	\$ 49,087	\$ 215,882	\$ -

There were no transfers between the levels of the fair value hierarchy during the six months ended June 30, 2024 and 2023.