Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Diversified Royalty Corp.,

Opinion

We have audited the consolidated financial statements of Diversified Royalty Corp. ("the Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2022 and December 31, 2021;
- the consolidated statements of net income (loss) and other comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditor's Responsibilities for the Audit of the Financial Statements***" section of our auditor's report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Assessment of the fair value measurement of the investment in NND LP

Description of the matter

We draw attention to Notes 3(j), 4(b), and 7 to the financial statements. The investment in Nurse Next Door LP ("NND LP") is a financial instrument measured at fair value and has a carrying value of $42,339 thousand. In determining the fair value, the Entity's significant assumption is the discount rate used to discount the contractual cash flows receivable from NND LP.

Why the matter is a key audit matter

We identified the assessment of the fair value measurement of the investment in NND LP as a key audit matter. This matter represented an area of significant risk of material misstatement as it required the Entity to determine the discount rate with reference to its expectations about NND LP's future operating results and financial condition. Minor changes in the discount rate used had a significant effect on the fair value of the investment in NND LP. As a result, specialized skills and knowledge and significant auditor judgement were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the Entity's projection of NND LP's operating results by comparing the projected results to historical actual results of NND LP, planned business initiatives, and external industry reports. We also compared the Entity's historical projection of NND LP's operating results to actual operating results to assess the Entity's ability to project operating results.

We involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the discount rate assumption used in the fair value measurement of the investment in NND LP. The valuation professionals compared the discount rate assumption against a discount rate range that was independently developed using publicly available reports of industry commentators for comparable entities. The valuation professionals considered features and risks specific to the investment in NND LP.

Assessment of the carrying value of intangible assets

Description of the matter

We draw attention to Notes 3(k), 4(b), and 8(g) to the financial statements. The intangible assets are measured at historical cost and have a carrying value of $398,592 thousand. The Entity performs an impairment test over its intangible assets annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverable amount is the higher of fair value less costs of disposal and value in use. In determining the recoverable amount of each intangible asset, the Entity's significant assumptions include the projected sales underlying the royalty payment and pre-tax discount rate.

Why the matter is a key audit matter

We identified the assessment of the fair value measurement of the investment in NND LP as a key audit matter. This matter represented an area of significant risk of material misstatement as it required the Entity to determine the discount rate with reference to its expectations about NND LP's future operating results and financial condition. Minor changes in the discount rate used had a significant effect on the fair value of the investment in NND LP. As a result, specialized skills and knowledge and significant auditor judgement were required in evaluating the results of our audit procedures.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter:

We evaluated the appropriateness of the Entity's projected sales underlying the royalty payment by comparing the projected sales to historical sales and external industry reports. When performing this assessment, we considered specific conditions and events affecting the sales.

We compared the Entity's historical revenue projections to actual results to assess the Entity's ability to accurately project future revenue.

We involved valuation professionals with specialized skills and knowledge, who assisted in the evaluation of the pre-tax discount rate used in the determination of the recoverable amount. The valuation professionals evaluated the pre-tax discount rate by comparing it against a pre-tax discount rate range that was independently developed using publicly available reports of industry commentators for comparable entities. The valuation professionals considered features and risks specific to the intangible assets.

Other Information

Management is responsible for the other information. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

- Determine, from the matters communicated with those charged with governance, those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our auditor's report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this auditor's report is Arnold Singh, CPA.

KPMG LLP

Chartered Professional Accountants

Vancouver, Canada
March 9, 2023

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

As at December 31, 2022 and 2021

	Note	December 31, 2022	December 31, 2021
Assets			
Current assets:			
Cash		$ 7,409	$ 8,939
Royalties and management fees receivable	6	5,575	4,911
Amounts receivable		16	11
Prepaid expenses and other		409	297
Interest rate swap assets	11	2,104	-
		15,513	14,158
Interest rate swap assets	11	1,205	647
Right-of-use asset and other	13	801	897
Investment in NND LP	7	42,339	44,467
Intangible assets	8	398,592	320,595
		$ 458,450	$ 380,764
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 5,376	$ 2,544
Interest rate swap liabilities	11	-	984
Income tax payable	14	1,486	2,121
Convertible debentures	10	-	55,968
		6,862	61,617
Bank loans, net of deferred financing charges	9	147,905	109,750
Convertible debentures	10	47,637	-
Promissory note	8d	3,467	3,109
Exchangeable units and other	12	3,716	2,008
Interest rate swap liabilities	11	-	33
Lease obligation	13	770	829
Deferred income tax liability	14	14,205	11,893
Shareholders' equity:			
Share capital	15	253,139	201,972
Contributed surplus		39,776	39,450
Equity component of convertible debentures	10	5,127	2,938
Accumulated other comprehensive income		1,165	-
Accumulated deficit		(65,319)	(52,835)
		233,888	191,525
		$ 458,450	$ 380,764

Subsequent events (note 24)

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

DIVERSIFIED ROYALTY CORP.
Consolidated Statements of Net Income and Comprehensive Income
(Expressed in thousands of Canadian dollars, except per share amounts)

For the years ended December 31, 2022 and 2021

	Note	Years ended December 31, 2022	2021
Royalty income	5	$ 44,650	$ 36,818
Management fees		533	463
		45,183	37,281
Expenses:			
Salaries and benefits		2,271	1,968
Share-based compensation	16	1,176	1,031
General and administration		835	713
Professional fees		566	463
Impairment loss (recovery)	8	7,553	(1,724)
		12,401	2,451
Income from operations		32,782	34,830
Interest expense on credit facilities		(8,911)	(7,299)
Other finance costs, net	18	(3,300)	(1,745)
Fair value adjustment on financial instruments	7, 11, 12	2,928	6,898
Income before income taxes		23,499	32,684
Income tax expense	14	7,938	9,166
Income for the year		**$ 15,561**	**$ 23,518**
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Foreign currency translation adjustment		1,165	-
Other comprehensive income for the year		**$ 1,165**	**$ -**
Total comprehensive income for the year		**$ 16,726**	**$ 23,518**
Weighted average number of shares outstanding			
Basic		125,607,078	121,866,677
Diluted		126,833,680	135,548,507
Income per share			
Basic	17	$ 0.12	$ 0.19
Diluted	17	$ 0.12	$ 0.19

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

DIVERSIFIED ROYALTY CORP.
Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian dollars, except for share amounts)

For the years ended December 31, 2022 and 2021

	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 public offering	15	16,428,900		44,004		-		-		-		-		44,004
Common shares issued on DRIP	15	1,270,057		3,545		-		-		-		-		3,545
Restricted share units settled		81,582		196		(704)		-		-		-		(508)
Share-based compensation		-		-		1,030		-		-		-		1,030
Dividends declared		-		-		-		-		-		(28,045)		(28,045)
Issuance of convertible debentures	10	-		-		-		2,189		-		-		2,189
Addition to intangible assets	8	1,083,063		3,422		-		-		-		-		3,422
Comprehensive income		-		-		-		-		1,165		15,561		16,726
Balance, December 31, 2022		141,422,794	$	253,139	$	39,776	$	5,127	$	1,165	$	(65,319)	$	233,888

	Note	Common shares		Share capital		Contributed surplus		Equity component of convertible debentures		Accumulated other comprehensive income		Accumulated deficit		Total equity
Balance, December 31, 2020		121,187,757	$	198,570	$	39,425	$	2,938	$	-	$	(51,260)	$	189,673
Common shares issued on DRIP	15	1,160,825		2,979		-		-		-		-		2,979
Restricted share units settled		210,610		423		(883)		-		-		-		(460)
Share-based compensation		-		-		908		-		-		-		908
Dividends declared		-		-		-		-		-		(25,093)		(25,093)
Comprehensive income		-		-		-		-		-		23,518		23,518
Balance, December 31, 2021		122,559,192	$	201,972	$	39,450	$	2,938	$	-	$	(52,835)	$	191,525

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

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

For the years ended December 31, 2022 and 2021

	Note	Years ended December 31, 2022	2021
Operating activities:			
Net income		$ 15,561	$ 23,518
Adjustments for:			
Tax expense	14	7,938	9,166
Impairment (recovery) loss		7,553	(1,724)
Depreciation expense		100	90
Share-based compensation		1,176	1,031
Fair value adjustments on financial instruments		(2,928)	(6,898)
Interest expense on credit facilities		8,911	7,299
Other finance costs, net		3,300	1,745
Interest paid		(8,911)	(7,299)
Interest received		168	29
Taxes paid		(6,252)	(2,717)
Distributions received from NND LP		5,005	4,906
Distributions paid on Exchangeable MRM Units	12a	(327)	-
Changes in non-cash operating items:			
Royalties and management fees receivable		(664)	(618)
Amounts receivable		(5)	4
Prepaid expenses and other		(761)	(85)
Accounts payable and accrued liabilities		(1,487)	(632)
Cash flows generated from operating activities		28,377	27,815
Financing activities:			
Proceeds from issuance of debt	9b	82,316	11,400
Proceeds from issuance of convertible debentures, net of fees	10	50,400	-
Proceeds from equity issuance	15	46,001	-
Payment of lease obligations		(105)	42
RSUs settled in cash		(238)	(92)
Debt financing costs		(978)	(373)
Equity issuance costs	15	(2,399)	-
Payment of dividends		(24,498)	(22,114)
Repayment of debt	9a,b	(43,630)	-
Redemption of convertible debentures	10	(57,500)	-
Cash flows generated from (used in) financing activities		49,369	(11,138)
Investing activities:			
Additions to intangible assets	8	(79,304)	(16,712)
Purchase of fixed assets		(4)	(244)
Cash flows used in investing activities		(79,308)	(16,956)
Net decrease in cash		(1,562)	(279)
Cash, beginning of the year		8,939	9,218
Effect of foreign exchange rate changes on cash		32	-
Cash, end of the year		$ 7,409	$ 8,939

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

Diversified Royalty Corp. ("DIV") is a company domiciled in Canada and governed by the Business Corporations Act (British Columbia). The consolidated financial statements of DIV as at and for the year ended December 31, 2022 are composed of DIV and its subsidiaries (together referred to as the "Company"). The head office of the Company is located at 330-609 Granville Street, Vancouver, BC, V7Y 1A1. The registered office of the Company is located at the 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 license and royalty arrangements are summarized below.

Sutton Group Realty Services Ltd. ("Sutton"): SGRS Royalties Limited Partnership ("SGRS LP") (an entity controlled by the Company), owns the trademarks and certain other intellectual property rights utilized by Sutton in its residential real estate franchise business (the "SGRS Rights"). The Company granted Sutton the licence to use the SGRS Rights in exchange for a royalty payment currently equal to $64.614 per agent per month (the "Sutton Royalty Rate") for the number of agents included in the royalty pool (the "Sutton Royalty Pool").

Mr. Lube Canada Limited Partnership ("Mr. Lube"): ML Royalties Limited Partnership ("ML LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Mr. Lube in its business (the "ML Rights"). The Company granted Mr. Lube the licence to use the ML Rights in exchange for a royalty payment currently equal to 7.95% of non-tire system sales and 2.50% of tire system sales of Mr. Lube locations in the royalty pool (the "Mr. Lube Royalty Pool").

LoyaltyOne Co. ("LoyaltyOne"): AM Royalties Limited Partnership ("AM LP") (a wholly owned subsidiary of the Company) owns the Canadian AIR MILES® trademarks and certain Canadian intellectual property rights (collectively, the "AIR MILES® Rights") used by LoyaltyOne in operating the AIR MILES® reward program in Canada (the "AIR MILES® Program"). In accordance with the terms of two license agreements with LoyaltyOne (collectively the "AIR MILES® Licenses"), LoyaltyOne has an exclusive right to use the AIR MILES® Rights in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Program.

Mr. Mikes Restaurants Corporation ("Mr. Mikes"): MRM Royalties Limited Partnership ("MRM LP") (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Mr. Mikes in its restaurant business (the "MRM Rights"). Prior to June 13, 2022, the Company granted Mr. Mikes the licence to use the MRM Rights in exchange for a royalty payment equal to 4.35% of notional system sales of Mr. Mikes locations in the royalty pool, which was comprised of 38 Mr. Mikes Restaurants (the "Mr. Mikes Royalty Pool"). As of June 13, 2022, the Company updated the licence to use the MRM Rights with a royalty payment based on the actual system sales of the Mr. Mikes locations in the royalty pool, which was comprised of 44 Mr. Mikes Restaurants (the "Amended Mr. Mikes Royalty Pool") (note 5(d)).

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 7). 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 entitled to receive a cash distribution of $4.8 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").

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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The consolidated financial statements were authorized and approved for issue by the Company's Board of Directors on March 9, 2023.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for its Investment in NND LP, interest rate swaps, the MRM Units (defined below) and the ML Units (defined below), which are measured at fair value.

(c) Functional and presentation currency:

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

The financial statements for the Company and 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.

3. Significant accounting policies:

These annual consolidated financial statements have been prepared using the accounting policies described below.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of DIV, SGRS LP, ML LP, AM LP, MRM LP, NND Holdings Limited Partnership ("NNDH LP"), OX LP and Strat-B LP and the respective general partners. All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Cash:

Cash consists of cash on hand, balances on deposit with Canadian chartered banks.

3. Significant accounting policies (continued):

(c) Revenue recognition:

The Company has two revenue streams, royalty income and management fees.

- Royalty income: The Company licenses its intellectual property rights to third parties in exchange for royalty payments. The royalty income is recognized based on the usage or sales that have occurred during the period.
- Management fees: The Company provides strategic and other services to certain royalty partners in exchange for a fixed monthly fee. Management fee is recognized as earned over the term of the agreement.

Royalty income and management fees for Mr. Lube, Sutton and Oxford are usually receivable within 21 days after the calendar month. Royalty income and management fees for Mr. Mikes are receivable 21 days after a specified four-week royalty period. Royalty income from the AIR MILES Program is usually receivable within 14 days after the calendar quarter. Royalty income from Stratus is usually receivable within 25 days after the calendar month.

(d) Intangible assets:

The intangible assets are recorded at cost, which includes directly attributable acquisition costs, and are adjusted to record the additions to the respective royalty pools. The intangible assets are not amortized as they have an indefinite life and are assessed for impairment as described in note 3(e).

(e) Impairment of intangible assets:

Intangible assets that are not amortized are subject to an annual impairment test or when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). The recoverable amount is the higher of an asset’s fair value less costs of disposal and value in use (being the present value of the expected future cash flows of the CGU). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the intangible asset’s carrying amount exceeds its recoverable amount.

A previously recognized impairment loss is assessed at each reporting date for any indicators that the loss has decreased or no longer exists. An impairment loss is reversed only to the extent that the intangible asset's carrying value does not exceed the carrying amount that would have existed had the original impairment loss not been recognized.

(f) Dividends to DIV shareholders:

Dividends to the Company’s shareholders are made monthly based upon available cash at the discretion of the Board of Directors. Dividends are recorded when declared and are subject to the Company retaining such reasonable working capital reserves as may be considered appropriate by the Company.

(g) Earnings per share:

The Company presents basic and diluted earnings per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the net income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the net income attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for dilutive potential common shares, which comprise share options, restricted share units, convertible debentures and exchangeable units.

3. Significant accounting policies (continued):

(h) Employee benefits:

(i) Share options:

The Company measures the compensation cost of share-based option awards to employees at the grant date using the Black-Scholes option pricing model to determine the fair value of the options. The compensation cost of the options is recognized as share-based compensation expense over the relevant vesting period of the share options. Forfeitures are estimated and are adjusted if actual forfeitures differ from the original estimate unless forfeitures are due to market-based vesting conditions. When the equity-settled share options are exercised, share capital is increased by the sum of the consideration paid and the carrying value of the share options recorded to contributed surplus.

(ii) Restricted share units:

Restricted share units ("RSUs") are settled, in accordance with the respective RSU agreements, in common shares or cash based on the number of vested restricted share units multiplied by the fair market value of the common shares on the vesting date.

The Company measures the cost of equity-settled RSUs based on the fair value of the underlying shares at the grant date, and is recorded as share-based compensation expense with a corresponding increase in equity over the vesting period.

RSUs that have a net settlement feature for withholding tax obligations are classified in their entirety as equity-settled.

(i) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of the previous year.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities on the consolidated statements of financial position and the amounts attributed to the assets and liabilities for tax purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Foreign withholding taxes, including United States federal withholding taxes at a rate of 10% of gross royalty income generated from sources within the United States, are recognized as a payment in lieu of Canadian federal and provincial current tax to the extent that they may be recovered by the Company as a foreign tax credit against its current tax liabilities arising in Canada.

3. Significant accounting policies (continued):

(j) Financial instruments:

Financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. At initial recognition, all financial assets classified as amortized cost and fair value through other comprehensive income ("FVOCI") are measured at fair value plus transaction costs that are directly attributable to its acquisition.

The Company classifies its financial assets in the following categories:

Financial assets at amortized cost: A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL: it is held in a business model whose objective is to hold the asset to collect contractual cash flows and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets within this category are subsequently measured at amortized cost using the effective interest method. Interest income, foreign exchange gains and losses, impairment losses and gain or loss on de-recognition are recognized in profit or loss.

Debt investments at FVOCI: A debt instrument is classified as FVOCI if it meets both of the following conditions and is not designated as FVTPL: it is held in a business model whose objective is achieved by collecting contractual cash flows and the sale of the financial asset and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets within this category are subsequently measured at fair value. Interest income, dividend income and foreign exchange gains and losses are recognized in profit or loss. Other gains and losses are recognized in other comprehensive income ("OCI") and are reclassified to profit or loss on de-recognition.

- Equity investments at FVOCI: On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis. Financial assets within this category are subsequently measured at fair value. Dividend income and foreign exchange gains and losses are recognized in profit or loss. Other gains and losses are recognized in OCI and are never reclassified to profit or loss.

- Financial assets at fair value through profit or loss ("FVTPL"): Financial assets not classified as amortized cost or FVOCI are measured at FVTPL. This includes all derivative financial instruments. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. These assets are subsequently measured at fair value, with net gains or losses, including any interest or dividend income, recognized through profit or loss.

Financial liabilities are classified as measured at amortized cost or FVTPL. Once the classification of a financial liability has been determined, reclassification is not permitted.

- Financial liabilities at amortized cost: A financial liability is measured at amortized cost using the effective interest method if it is not designated as FVTPL. Interest expense and foreign exchange gains and losses are recognized in profit or loss.

- Financial liabilities at FVTPL: A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense are recognized in profit or loss. For financial liabilities classified as FVTPL, changes in credit risk will be recognized in other comprehensive income, with the remainder of changes recognized in profit or loss. However, if this requirement creates or enlarges an accounting mismatch in profit or loss, the entire change in fair value will be recognized in profit or loss.

Financial assets and liabilities are offset and the net amount is reported in the consolidated statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

3. Significant accounting policies (continued):

(j) Financial instruments (continued):

The Company has elected as an accounting policy choice for non-substantial modifications of variable or fixed rate debt, if certain criteria are met, to adjust the carrying amount of the financial liability on modification for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortize the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument. No gain or loss is recognized in profit or loss. This accounting policy applies to variable or fixed rate debt that had an insignificant original issue discount that can be prepaid at par, or prepaid with insignificant prepayment fees, to the extent that modification has the effect of repricing the debt to a market rate of interest.

(k) Impairment of financial assets:

The Company uses an expected credit loss ("ECL") impairment model. The ECL impairment model applies to financial assets measured at cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. The Company has elected to use the lifetime ECL approach. Under this approach, the impairment allowance is recorded as a result of all possible default events over the expected life of the financial asset. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Company in accordance with the contract and the cash flows that the Company expects to receive) and are discounted at the effective interest rate of the financial asset. The Company considers reasonable and supportable information when assessing the credit risk of a financial asset and in estimating the ECLs, which includes:

- Significant financial difficulty of the Company's counterparty;
- Delinquencies in interest or principal payments over 30 days; and
- It becomes probable that the borrower will enter into bankruptcy or other financial reorganization.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the asset.

(l) Convertible debentures:

The Company accounts for convertible debentures by allocating the proceeds of the debentures, net of financing costs, between liability and equity based on estimated fair values of the debt and conversion option. The liability component is valued first and the difference between the proceeds of the convertible debentures and the fair value of the liability component is assigned to the equity component. Interest expense is recorded as a charge to earnings and is calculated at an effective rate with the difference between the coupon rate and the effective rate being credited to the debt component of the convertible debentures (accretion expense) such that, at maturity the debt component is equal to the face value of the outstanding convertible debentures.

(m) Leases:

IFRS 16 has a single on-balance sheet lease accounting model for lessees. At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A lessee recognizes a right-of-use ("ROU") asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset, less any lease incentives received. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate.

3. Significant accounting policies (continued):

(m) Leases (continued):

The lease obligation is measured at amortized cost using the effective interest method and remeasured when there is a change in future lease payments. Changes in future lease payments can arise from a change in an index or rate, if there is a change in the Company's estimate of the expected payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

4. Use of estimates and judgments:

The preparation of the consolidated 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.

(a) Critical judgments:

- Consolidation:

  In applying the criteria outlined in IFRS 10, *Consolidated Financial Statements,* judgment is required in determining whether DIV controls SGRS LP, ML LP, MRM LP, NND LP, OX LP and Strat-B LP. Making this judgment involves taking into consideration the concepts of power over these entities, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of these entities to generate economic returns.

  Using these criteria, management has determined that DIV ultimately controls SGRS LP, ML LP, MRM LP, OX LP and Strat-B LP through its majority ownership of the respective general partners.

  Although DIV has 99% ownership over the general partner of NND LP, management has determined that the definition of control pursuant to IFRS 10 is not met as DIV does not have the ability to direct the activities that most significantly affect the returns of NND LP.

- Control of NND Rights:

  In determining whether the Company controls an asset, the Company takes into consideration the control model in IFRS 15, *Revenues* ("IFRS 15"), and if there is an agreement to repurchase the asset. If an entity has a right to repurchase the asset, the buyer does not obtain control of the asset because the buyer is limited in its ability to direct the use of, and obtain substantially all of the remaining benefits from, the assets even though the buyer may have physical possession of the asset.

  Nurse Next Door has the ability to repurchase the NND Rights from NND LP (the "NND Buy-Out Option") at any time after November 15, 2026. Due to the NND Buy-Out Option, in accordance with IFRS 15, NND LP does not have control over the NND Rights and cannot recognize the NND Rights as an intangible asset on its books. Instead, the transaction is accounted for as a financing arrangement.

- Capitalization of acquisition costs:

  At the time of acquisition, the Company considers whether or not it represents a business combination or an asset acquisition. This requires the Company to make certain judgments as to whether or not the assets acquired include the inputs, processes and outputs necessary to constitute a business. Under a business combination, acquisition-related costs are recognized as an expense. When the acquisition does not represent a business combination, it is accounted as an asset acquisition, where the costs are capitalized to the respective asset. The Company has determined that the transactions related to the SGRS Rights, ML Rights, AM Rights, MRM Rights, Oxford Rights and Stratus Rights were asset acquisitions and the acquisition-related costs were capitalized to the intangible asset.

(Tabular amounts expressed in thousands of Canadian dollars)

4. Use of estimates and judgments (continued):

(a) Critical judgments (continued):

- Fair value of exchangeable partnership units in SGRS LP, ML LP, MRM LP and OX LP ("Exchangeable Partnership Units"):

  The Company does not assign any value to the Exchangeable Partnership Units as they do not currently meet the relevant criteria for exchange into common shares of DIV; however, once the relevant criteria has been met, they convert into exchangeable units which are then fair valued so long as they remain outstanding (note 12).

(b) Key estimates and assumptions:

- Intangible assets:

  The Company carries the intangible assets at cost and are not amortized as they have an indefinite life.

  The Company tests intangible assets for impairment annually or when there is any indication that an asset may be impaired. This requires the Company to use a valuation technique, which is dependent on a number of different assumptions that requires management to exercise judgment, to determine if impairment exists. These assumptions include the projected sales underlying the royalty payment, as well as the pre-tax discount rate used to determine the value-in-use. As a result, the estimated cash flows that the intangible assets are expected to generate could differ materially from actual results.

- Valuation of the Investment in NND LP:

  The Company's investment in NND LP is a financial instrument recorded at fair value. The valuation of NND LP includes an estimate of the discounted cash flows receivable from Nurse Next Door and takes into consideration a number of different variables that requires management to exercise judgment. These judgments include the discount rate used to calculate the fair value of the contractual cash flows receivable, the likelihood of Nurse Next Door exercising the NND Buy-Out Option and the likelihood of Nurse Next Door exercising its right to exchange NND LP Class B units for DIV shares (or cash at DIV's option), subject to meeting certain criteria (the "NND Exchange Mechanism"). As a result, the estimated cash flows that the investment in NND LP are expected to generate could differ materially from actual results.

5. Royalty income:

	Years ended December 31, 2022	2021
Mr. Lube	$ 23,708	$ 19,236
AIR MILES®	6,497	6,570
Mr. Mikes[1]	5,060	3,337
Oxford	4,199	3,610
Sutton	4,146	4,065
Stratus[2]	1,040	-
	$ 44,650	$ 36,818

1) For the year ended December 31, 2022, Mr. Mikes royalty income includes payments in aggregate of $1.30 million, representing partial payment of deferred contractual royalty fees, which have been recognized as revenue upon collection.
2) Stratus royalty income for the year ended December 31, 2022 was US$0.77 million, translated at a foreign exchange rate of $1.3521 to US$1.

5. Royalty income (continued):

(a) Mr. Lube:

Pursuant to the terms of the licence and royalty agreement dated August 19, 2015 (the “Mr. Lube Licence and Royalty Agreement”), the royalty paid by Mr. Lube to ML LP is calculated by multiplying the system sales of locations within the Mr. Lube Royalty Pool by an agreed royalty fee (the “Mr. Lube Royalty Rate”). In addition, ML LP is entitled to receive a make-whole payment in the event that a Mr. Lube location in the ML Royalty Pool is permanently closed during the royalty payment period. The make-whole payment is based on the lost system sales multiplied by the Mr. Lube Royalty Rate. Mr. Lube will also, subject to meeting certain performance criteria, be provided opportunities to increase the Mr. Lube Royalty Rate in four, 0.5% increments (note 8(a)).

Mr. Lube launched a new tire program launched in September 2017. Pursuant to the amended licence and royalty agreement effective September 18, 2017, ML LP agreed to charge an effective royalty rate payable on system sales derived from the sale of tires and rims of 2.5% (compared to 6.95% at that time on all other system sales) for the locations in the Mr. Lube Royalty Pool. On May 1, 2018, the Mr. Lube Royalty Rate on non-tire sales was increased from 6.95% to 7.45% and on May 1, 2021, the Mr. Lube Royalty Rate on non-tire sales was increased from 7.45% to 7.95%.

Effective May 1, 2021, the Mr. Lube Royalty Pool was adjusted to include the royalties from thirteen new Mr. Lube locations, increasing the Mr. Lube Royalty Pool to 135 locations. Effective May 1, 2022, the Mr. Lube Royalty Pool was adjusted to include the royalties from 6 new Mr. Lube locations and to remove two Mr. Lube locations for which make-whole payments were being made due to the store closures in 2021. With the adjustment for these six new locations and two closures, the Mr. Lube Royalty Pool increased to 139 locations effective May 1, 2022.

For the year ended December 31, 2022, the royalty paid by Mr. Lube included non-tire make-whole payments of $0.7 million (2021 – $0.4 million) for two stores that closed on August 13 and November 28, 2021.

(b) AIR MILES:

The royalty paid by LoyaltyOne Co. to AM LP is equal to 1% of the gross billings from the AIR MILES Program in accordance with the terms of the AIR MILES Licenses.

(c) Sutton:

Pursuant to the terms of the licence and royalty agreement dated June 19, 2015 (the “Sutton Licence and Royalty Agreement”), the royalty paid by Sutton to SGRS LP is calculated by multiplying a determined number of agents in the Sutton Royalty Pool by the Sutton Royalty Rate. Sutton has the ability, subject to meeting certain performance criteria, to increase the amount of the annual royalty payable to the Company by increasing the number of agents in the Sutton Royalty Pool. The number of agents in the Sutton Royalty Pool may be increased annually and will never be decreased. The Sutton Royalty Rate will automatically increase by 2% each July 1st beginning in 2016. Sutton will also have the ability, subject to meeting certain performance criteria, to increase the Sutton Royalty Rate in 10.0% increments four times during the life of the royalty (note 8(c)).

Effective July 1, 2022, the monthly Sutton Royalty Rate increased from $63.347 per agent to $64.614 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2022.

(d) Mr. Mikes:

Pursuant to the terms of the licence and royalty agreement between Mr. Mikes and MRM LP dated May 20, 2019 (the “Mr. Mikes Licence and Royalty Agreement”), the royalty paid by Mr. Mikes to MRM LP is calculated by multiplying the notional system sales of restaurants in the Mr. Mikes Royalty Pool by an agreed royalty rate, which is initially set at 4.35%.

On November 9, 2022, DIV, its subsidiaries MRM LP and MRM Royalties GP Inc. (“MRM GP”) and Mr. Mikes, entered into amendments to certain of the agreements governing the royalty and related arrangements between the parties (collectively the “Amended MRM Royalty Agreements”), which are retroactively applied and effective as of June 13, 2022. Pursuant to the Amended MRM Royalty Agreements, the royalty paid by Mr. Mikes to MRM LP is calculated by multiplying the actual system sales of the restaurants in the Amended Mr. Mikes Royalty Pool by the agreed royalty rate, which remains unchanged at 4.35%. Accordingly, the Mr. Mikes royalty is now a variable top-line royalty as opposed to a fixed royalty.

As of the date of these financial statements, DIV has deferred a total of $0.2 million (2021 - $1.3 million) of contractual amounts otherwise owing, which will be recognized upon collection.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Royalty income (continued):

(e) Oxford:

Pursuant to the terms of the licence and royalty agreement between Oxford and OX LP dated February 20, 2020 (the “OX Licence and Royalty Agreement”), the royalty paid by Oxford to OX LP is calculated by multiplying the gross sales of the locations in the Oxford Royalty Pool by a royalty rate equal to 7.67%.

(f) Stratus:

Pursuant to the terms of the licence and royalty agreement between Stratus and Strat-B LP dated November 15, 2022 (the “Strat-B Licence and Royalty Agreement”), the royalty paid by Stratus to Strat-B LP is US$6.0 million per annum, net of withholding tax (note 3(i)), and which grows at a rate of 5% in 2023, 2024, 2025 and 2026 and 4% thereafter.

6. Royalties and management fees receivable:

		December 31, 2022		December 31, 2021
Mr. Lube	$	2,102	$	2,003
AIR MILES®		1,641		1,813
Stratus[1]		612		-
Oxford		445		353
Mr. Mikes		392		366
Sutton		376		369
Nurse Next Door		7		7
	$	5,575	$	4,911

1) Stratus royalty receivable was US$0.45 million at December 31, 2022, translated at a foreign exchange rate of $1.3544 to US$1.

The Company subsequently collected all royalties and management fees receivable at December 31, 2022 in January 2023.

7. Investment in NND LP:

On November 15, 2019, DIV subscribed to NND LP Class A units for a cash purchase price of $52.0 million, and Nurse Next Door subscribed to NND LP Class B units for an agreed value of $23.0 million. On November 15, 2019, NND LP licensed the NND Rights to Nurse Next Door for 99 years in exchange for a gross royalty equal to the greater of: (i) 6% of gross sales from Nurse Next Door’s franchises and corporate stores in Canada and the United States, and (ii) $4.8 million per year, which increases at a fixed rate of 2.0% per annum. Subject to certain royalty coverage tests being met, Nurse Next Door is able to sell additional royalties to NND LP commencing in February 1, 2021. In consideration for the incremental royalty, Nurse Next Door will be entitled, subject to TSX approval, to indirectly exchange its NND LP Class B Units for common shares of DIV, or cash at DIV’s election.

The Company, through its ownership of NND LP Class A units, is entitled to receive a cash distribution of $4.8 million per year, which grows at a fixed rate of 2.0% per annum (the “DIV Distribution Entitlement”). To the extent the gross royalty is greater than the DIV Distribution Entitlement, Nurse Next Door is entitled to receive the excess amount in the form of a cash distribution through its ownership of NND LP Class B units. Under the terms of the governance agreement dated November 15, 2019 between DIV, Nurse Next Door and other parties (the “NND Governance Agreement”), Nurse Next Door has the right at any time after November 15, 2026 to buy back the NND Rights at a price determined in accordance with a formula outlined in the NND Governance Agreement upon any exercise of such right.

Due to the NND Buy-Out Option, NND LP does not have control (per IFRS 15) over the NND Rights and cannot recognize the NND Rights as an intangible asset on its books. Instead, the transaction is accounted for as a financing arrangement, and the Company’s investment in NND LP is a financial instrument measured at fair value. The cash distributions received by the Company from NND LP are recorded as a reduction in its investment in NND LP. For the year ended December 31, 2022, the DIV Distribution Entitlement was $5.0 million, gross and net of expenses incurred by NND LP (December 31, 2021 - $4.9 million, gross and net of expenses incurred by NND LP).

(Tabular amounts expressed in thousands of Canadian dollars)

7. Investment in NND LP (continued):

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 December 31, 2022 and 2021. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 14.4% (2021 - 13.9%). The total fair value of NND LP was $42.3 million (2021 - $44.5 million) and a fair value gain of $2.9 million was recorded during the year ended December 31, 2022 (2021 – fair value gain of $5.7 million). A one percentage point increase in the discount rate would decrease the fair value by $3.1 million (2021 - $4.4 million). A one percentage point decrease in the discount rate would increase the fair value by $3.6 million (2021 - $2.7 million).

8. Intangible assets:

	ML Rights (a)	AIR MILES (b)	SGRS Rights (c)	MRM Rights (d)	Oxford Rights (e)	Stratus Rights (f) (1)	Total
Balance, December 31, 2020	$ 152,988	$ 53,977	$ 32,273	$ 23,369	$ 38,294	$ -	$ 300,901
Additions	17,970	-	-	-	-	-	17,970
Reversal (Impairment)(2)	-	(5,167)	-	5,681	1,210	-	1,724
Balance, December 31, 2021	$ 170,958	$ 48,810	$ 32,273	$ 29,050	$ 39,504	$ -	$ 320,595
Additions	4,277	-	-	-	-	79,700	83,977
Foreign Exchange	-	-	-	-	-	1,573	1,573
Reversal (Impairment)(2)	-	(14,357)	(3,999)	8,956	1,847	-	(7,553)
Balance, December 31, 2022	$ 175,235	$ 34,453	$ 28,274	$ 38,006	$ 41,351	$ 81,273	$ 398,592

1) On acquisition, the Stratus Rights were added to intangible assets at the purchase price of US$59.4 million plus the directly attributable acquisition costs of US$0.6 million translated at the historical foreign exchange rate on November 15, 2022, of $1.3282 to US$1. At December 31, 2022, the Stratus Rights were translated at the period end rate of $1.3544 to US$1, giving rise to a $1.6 million foreign exchange gain recorded to other comprehensive income.
2) Refer to note 8(g).

(a) ML Rights:

ML LP licensed the ML Rights back to Mr. Lube for 99 years in exchange for a royalty payment equal to the system sales of the Mr. Lube locations in the Mr. Lube Royalty Pool multiplied by the Mr. Lube Royalty Rate (note 5(a)). Upon closing the Mr. Lube acquisition, ML LP issued 100,000,000 Class B, Class C, Class D, Class E, and Class F units to Mr. Lube. These units will become exchangeable into common shares of the Company through the exchange agreement dated August 19, 2015 among Mr. Lube, ML Royalties GP Inc. and the Company (the "Mr. Lube Exchange Agreement") upon the satisfaction of certain performance criteria. The Class B LP units of ML LP become exchangeable into common shares of the Company upon adding Mr. Lube locations to the ML Royalty Pool. The Class C, Class D, Class E, and Class F LP units become exchangeable into common shares of the Company on increases in the ML Royalty Rate of 0.5% increments four times during the life of the royalty, in accordance with the partnership agreement dated August 19, 2015 among Mr. Lube, the Company, and ML Royalties GP Inc.

In addition to the royalty, Mr. Lube will pay the Company a management fee of approximately $0.2 million per year for strategic and other services. The management fee will be increased at a rate of 2.0% per annum over the term of the Mr. Lube Licence and Royalty Agreement.

Annually on May 1, the Mr. Lube Royalty Pool may be adjusted, subject to meeting certain criteria, to include gross sales from new Mr. Lube locations less gross sales from Mr. Lube locations that were permanently closed during the preceding calendar year. In return for adding these net sales to the Mr. Lube Royalty Pool, Mr. Lube receives the right to indirectly acquire common shares of the Company through the exchange of Class B LP Units of ML LP (the "ML Additional Entitlement"). The ML Additional Entitlement is determined based on the estimated net tax-adjusted royalty revenue added to the Mr. Lube Royalty Pool (adjusted by a 20% discount for locations that were open for business prior to June 30, 2019, or a 7.5% discount for all other additions), divided by the yield of the Company's shares, divided by the weighted average share price of the Company's shares over the 20 days preceding March 31. Mr. Lube receives 80% of the estimated ML Additional Entitlement initially, with the balance received on May 1 of the subsequent year when the actual full year performance of the new locations is known with certainty. The ML Additional Entitlement is automatically exchanged by Mr. Lube into common shares of DIV, or settled in cash at DIV's option, pursuant to the Mr. Lube Exchange Agreement.

8. Intangible assets (continued):

(a) ML Rights (continued):

On November 9, 2020, DIV and Mr. Lube amended and restated the limited partnership agreement of ML LP (the "LP Agreement") to confirm the terms on which (i) the Mr. Lube royalty rate on non-tire sales at flagship locations would be increased by 0.5% from 7.45% to 7.95% effective May 1, 2021, and (ii) the Mr. Lube Royalty Pool would be adjusted to include royalties from 13 additional Mr. Lube locations effective May 1, 2021. The increase of the Mr. Lube royalty rate on non-tire sales represents the second such royalty rate increase and the royalty rate on tire sales remained unchanged at 2.50%. The total consideration for the increase of the Mr. Lube Royalty Rate was $8.3 million, calculated based on a 7.25x multiple of the incremental annual royalty revenue, and was paid to Mr. Lube on May 1, 2021 in cash and recorded as an addition to intangible assets.

The initial consideration for the 13 Mr. Lube locations added to the Mr. Lube Royalty Pool was $7.7 million was paid on May 1, 2021, representing 80% of the total estimated consideration of $9.6 million calculated based on a 7.25x multiple of the incremental annual royalty revenue. The remaining consideration payable for the net additional royalty revenue related to 7 of the 13 locations was paid to Mr. Lube on May 1, 2022 and the payment was adjusted to reflect the actual system sales of these locations for the year ending December 31, 2021. The remaining consideration payable for the net additional royalty revenue related to 6 of the 13 locations will be paid to Mr. Lube on May 1, 2023 in cash. As at December 31, 2022, the remaining consideration payable to Mr. Lube was adjusted to $2.8 million, reflecting the actual system sales of these locations for the year ending December 31, 2022, and recorded to accounts payable and accrued liabilities.

On May 1, 2021, DIV also paid Mr. Lube a remaining $0.9 million of cash consideration for the additions to the Mr. Lube Royalty Pool that occurred on May 1, 2019. The cash consideration paid was equal to the lower of: (i) $3.1822 per share and (ii) the weighted average share price of the Company's shares over the 20 trading days ending on April 26, 2021, the fifth trading day before May 1, 2021, which was determined to be $2.4941 per share.

On May 1, 2022, the Mr. Lube Royalty Pool was adjusted to include the royalties from 6 new Mr. Lube locations and to remove two Mr. Lube locations for which make-whole payments were being made due to the store closures in 2021. The initial consideration for the addition of 6 new stores to the Mr. Lube Royalty Pool was determined to be $3.4 million, representing 80% of the total consideration of $4.3 million, based on the forecast system sales of these 6 locations for the 2022 fiscal year. DIV elected to pay the initial consideration in shares and issued 1,083,063 DIV shares to Mr. Lube, valued at $3.1592 per share based on the weighted average share price of the Company's shares over the 20 trading days ending on April 25, 2022, the fifth trading day before May 1, 2022. In exchange for the addition to the Mr. Lube Royalty Pool, Mr. Lube received the right to exchange Class B LP units of ML LP (the "ML Units") for common shares of DIV.

The remaining 20% consideration payable for the additional royalty revenue related to the 6 locations will be paid to Mr. Lube on May 1, 2023 in either cash or shares, at DIV's election. As at December 31, 2022, the remaining consideration payable to Mr. Lube was adjusted to $2.6 million reflecting the actual system sales of the 6 locations for the year ending December 31, 2022, and recorded to exchangeable units and other, given DIV's intention to pay the remaining consideration in shares (the "Additional Shares"). In addition, ML LP will also be required to pay Mr. Lube an amount of approximately $0.2 million in cash on May 1, 2023 equal to the dividends Mr. Lube would have received during the period from May 1, 2022 to May 1, 2023 had the Additional Shares been issued on May 1, 2022.

(b) AIR MILES Rights:

In accordance with the terms of the AIR MILES Licenses, AM LP will receive an aggregate royalty, payable quarterly, equal to 1% of gross billings from the AIR MILES Program in Canada in perpetuity.

(c) SGRS Rights:

SGRS LP licensed the SGRS Rights back to Sutton for 99 years in exchange for a royalty payment equal to the Sutton Royalty Pool multiplied by the Sutton Royalty Rate (note 5(c)).

8. Intangible assets (continued):

(c) SGRS Rights (continued):

Upon closing the Sutton Acquisition, SGRS LP issued 100,000,000 Class A, Class B, Class C, Class D, and Class E LP units to Sutton. These units will become exchangeable into common shares of the Company through the exchange agreement dated June 19, 2015 among Sutton, SGRS Royalties GP Inc. and the Company upon the satisfaction of certain performance criteria. The Class A LP Units become exchangeable into common shares of the Company on the contribution of additional agents into the Sutton Royalty Pool. The Class B, Class C, Class D, and Class E LP units become exchangeable into common shares of the Company on increases in the Sutton Royalty Rate of 10.0% increments four times during the life of the royalty, in accordance with the partnership agreement dated June 19, 2015 among Sutton, the Company, and SGRS Royalties GP Inc. (the "Sutton Exchange Agreement").

In addition to the royalty, Sutton will pay the Company a management fee of approximately $0.1 million per year for strategic and other services. The management fee will be increased by 10.0% every five years.

Annually on July 1, the Sutton Royalty Pool may be adjusted, subject to meeting certain performance criteria, to increase the number of agents. In return for increasing the number of agents in the Sutton Royalty Pool, Sutton receives the right to indirectly acquire common shares of the Company through the exchange of Class A LP Units of SGRS LP (the "SGRS Additional Entitlement"). The SGRS Additional Entitlement is determined based on 92.5% of the estimated net tax-adjusted royalty revenue added to the Sutton Royalty Pool, divided by the yield of the Company's shares, divided by the weighted average share price of the Company's shares over the 20 days preceding May 31. The SGRS Additional Entitlement is automatically exchanged by Sutton into common shares of DIV, or settled in cash at DIV's option, pursuant to the Sutton Exchange Agreement.

(d) MRM Rights:

On May 20, 2019, the Company acquired, through MRM LP, the MRM Rights for $43.2 million. The purchase price was satisfied by a cash payment of $37.1 million, the issuance of 1,000,000,000 Class B and Class C units of MRM LP having an agreed value of $1.15 million to Mr. Mikes, and a promissory note of $4.95 million, payable subject to certain conditions being met. The cash payment was financed by cash on hand of $37.1 million, which was subsequently partially refinanced by the issuance of $10.3 million of debt (note 9(b)). The promissory note was initially recorded at a fair value and is subsequently measured at amortized cost using the effective interest method. In addition, $0.2 million in costs incurred for the acquisition of the MRM Rights were capitalized as part of the purchase.

Pursuant to the Amended MRM Royalty Agreements (note 5(d)), Mr. Mikes will be permitted, on April 1st of each year, to add eligible new Mr. Mikes locations to the Amended Mr. Mikes Royalty Pool less gross sales from Mr. Mikes restaurants that were permanently closed during the preceding calendar year, subject to Mr. Mikes meeting the required royalty coverage test. In consideration for the addition of the net eligible new Mr. Mikes locations to the Amended Mr. Mikes Royalty Pool, Mr. Mikes will initially be entitled to payment in cash, which payments will be deducted against the outstanding balance owing by MRM LP on the promissory note (the "Amended Note"), and thereafter to exchange certain units of MRM LP held by Mr. Mikes for common shares of DIV subject to the approval of the TSX or cash at DIV's election. The Amended Note is deducted by payment amounts calculated based on a multiple of 8.5x, multiplied by the net royalty revenue attributable to the net eligible new Mr. Mikes locations added to the Amended Mr. Mikes Royalty Pool, with other adjustments.

The Class B and Class C units are exchangeable into common shares of the Company through certain agreements among Mr. Mikes, MRM Royalties GP Inc. and the Company, in each case, upon satisfaction of certain performance criteria and the approval of the TSX. The Class B units become exchangeable into common shares of the Company upon adding net eligible new Mr. Mikes locations to the Amended Mr. Mikes Royalty Pool (excluding the locations attributable to deduction against the Amended Note). In return for adding these net sales to the Mr. Mikes Royalty Pool, Mr. Mikes receives the right to indirectly acquire common shares of the Company through the exchange of Class B LP units of MRM LP (the "MRM Additional Entitlement"). The Class C units become exchangeable into common shares of the Company upon increases in the MRM Royalty Rate, which may continue to be in increments of 0.25% six times during the life of the royalty, in accordance with the Amended MRM Royalty Agreements. On May 20, 2019 and as at December 31, 2022, the total number of exchangeable Class B and Class C units was 355,032, and represents a retained interest in MRM LP (the "Initial Retained Interest") of approximately 4.1% (note 12(a)). The Initial Retained Interest must be held in perpetuity and cannot be exchanged by Mr. Mikes for common shares of DIV without DIV's prior written approval and the approval of the TSX.

8. Intangible assets (continued):

(d) MRM Rights (continued):

The MRM Additional Entitlement is determined based on the estimated net-tax-adjusted royalty revenue added to the Amended Mr. Mikes Royalty Pool (adjusted by a 10% discount), divided by the yield of the Company's shares, divided by the weighted average share price of the Company's shares of the 20 trading days ending on the fifth trading day preceding the last day of February, with other adjustments. Mr. Mikes receives 80% of the estimated MRM Additional Entitlement initially, with the balance received on April 1 of the subsequent year when the actual full year performance of the new locations is known with certainty. The MRM Additional Entitlement is exchanged by Mr. Mikes into common shares of DIV, or settled in cash at DIV's option, pursuant to the Amended MRM Royalty Agreements.

In addition to the royalty payable to MRM LP, Mr. Mikes will pay the Company a management fee of approximately $0.04 million per year for strategic and other services. The management fee will be increased at a rate of 2.5% per annum over the term of the Amended MRM Royalty Agreements. During the year ended December 31, 2022, due to a change in the expected timing of the settlement of the promissory note, a $0.2 million loss (2021 - $0.1 million gain) was recorded in other finance costs (note 18).

(e) Oxford Rights:

On February 20, 2020, the Company indirectly acquired, through OX LP, the Oxford Rights for a purchase price of $44.0 million, plus a retained interest provided to Oxford through the issuance of 10,493 Ordinary LP units, 100,000,000 Class B, 100,000,000 Class C, 100,000,000 Class D, 100,000,000 Class E, 100,000,000 Class F, 100,000,000 Class G, and 100,000,000 Class H limited partner units of OX LP having an agreed value of approximately $33,000.

The cash purchase price of $44.0 million was funded with $37.0 million drawn from DIV's Acquisition Facility (defined below, refer to note 9(a)) and DIV's cash on hand following DIV's drawdown of the remaining $7.0 million of available capacity under the NNDH LP term loan facility (note 9(b)). The refundable Goods and Services Tax of $2.2 million payable by OX LP on the purchase price and estimated transaction costs were funded with a further $2.7 million drawn from the available capacity under the Acquisition Facility. The Acquisition Facility was subsequently partially repaid in cash using funds received from the issuance of equity and the issuance of $9.0 million of debt (note 9(b)).

The Class B, Class C, Class D, Class E, Class F, Class G and Class H units are exchangeable into common shares of the Company through the exchange agreement dated February 20, 2020 among Oxford, OX Royalties GP Inc. and the Company (the "Oxford Exchange Agreement") upon the satisfaction of certain performance criteria.

Annually on May 1, the Oxford Royalty Pool may be adjusted, subject to meeting certain criteria, to include gross sales from new Oxford locations less gross sales from Oxford locations that were permanently closed during the preceding calendar year. In return for adding these net sales to the Oxford Royalty Pool, Oxford receives the right to indirectly acquire common shares of the Company through the exchange of Class B units of OX LP (the "OX Additional Entitlement"). The OX Additional Entitlement is determined based on the estimated net tax-adjusted royalty revenue added to the Oxford Royalty Pool (adjusted by a 10% discount for locations that were open for business prior to December 31, 2023, or a 7.5% discount for all other additions), divided by the yield of the Company's common shares. Oxford receives 80% of the estimated OX Additional Entitlement initially, with the balance received on May 1 of the subsequent year when the actual full year performance of the new locations is known with certainty. The OX Additional Entitlement is automatically exchanged by Oxford into common shares of DIV, or settled in cash at DIV's option, pursuant to the Oxford Exchange Agreement.

The Class C, Class D, Class E, Class F, Class G and Class H units become exchangeable into common shares of the Company on increases in the Oxford Royalty rate of 0.25% increments six times during the term of the OX Licence and Royalty Agreement.

In addition to the royalty payable to OX LP, Oxford will pay DIV a management fee of $40,000 per annum for strategic advice and other services. The management fee will increase by $5,000 every five years over the term of the OX License and Royalty Agreement.

(Tabular amounts expressed in thousands of Canadian dollars)

8. Intangible assets (continued):

(f) Stratus Rights:

On November 14, 2022, the Company acquired through Strat-B LP, the Stratus Rights for a purchase price of US$59.4 million. The purchase price was funded with $47.0 million drawn from DIV's existing undrawn Acquisition Facility (defined below, refer to note 9(a)), a $15 million increase in the senior credit facilities of the Company's subsidiary ML LP (note 9(b)), and a US$15 million senior credit facility issued to Strat-B LP (note 9(b)). The Acquisition Facility was subsequently partially repaid in cash using funds received from the issuance of equity (note 15).

Stratus may increase the annual royalty payable on April 1st of each year following the closing date (each an "Adjustment Date") subject to Stratus satisfying certain royalty coverage tests. The amount of each royalty increase cannot be less than US$1.0 million per annum and must, in respect of amounts over that threshold, be in increments of US$0.1 million per annum. In consideration for a royalty increase on an Adjustment Date, Strat-B LP will pay an amount to Stratus in cash, based on a formula that is intended to be accretive to DIV.

(g) Impairment assessment:

The Company tests the carrying value of its intangible assets for impairment annually, or when there is an indication that an asset may be impaired. Impairment exists if the carrying value of the cash-generating unit ("CGU") is greater than its recoverable amount.

The Company performed its annual impairment test on its indefinite life intangible assets as at December 31, 2022 and December 31, 2021. The Company has used the value in use method to determine the recoverable amount for all impairment testing performed during the years ended December 31, 2022 and December 31, 2021. The estimates of future cash flows require a number of key assumptions about future business performance. These assumptions and estimates are based on the relevant business' historical experience, economic trends, as well as past and ongoing communications with relevant stakeholders of the Company. The expected future cash flows are based on the projected sales underlying the royalty payment over a five-year period, with a terminal growth rate applied on the expected cash flows thereafter to reflect the indefinite life of the intangible assets. However, these forecasted cash flows are based on current and anticipated market conditions, which are inherently uncertain.

The following tables outline the pre-tax discount rate and the terminal value growth rate used in calculating the recoverable amount for each CGU tested for impairment as at December 31, 2022 and December 31, 2021:

December 31, 2022	ML Rights	AIR MILES	SGRS Rights	MRM Rights	Oxford Rights	Stratus Rights
Pre-tax discount rate	11.7%	15.7%	16.8%	13.0%	12.9%	13.9%
Terminal value growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	4.0%

December 31, 2021	ML Rights	AIR MILES	SGRS Rights	MRM Rights	Oxford Rights	Stratus Rights
Pre-tax discount rate	10.7%	14.4%	14.6%	12.7%	12.0%	N/A
Terminal value growth rate	2.0%	0.5%	2.0%	2.0%	2.0%	N/A

During the year ended December 31, 2022, the pre-tax discount rate had a range from 11.7% to 16.8% (2021 – 10.7% to 14.6%), and the terminal value growth rate had a range of 2.0% to 4.0% (2021 - range from 0.5% to 2.0%).

In 2021, Mr. Mikes saw a general recovery in the restaurant industry following a $19.8 million impairment loss in 2020 that was due to the impact of the COVID-19 pandemic on Mr. Mikes' restaurants and the company's inability to pay the fixed royalty payment to DIV in full. The Company concluded, in 2021, that the recoverable amount for the MRM Rights exceeded the carrying amount, resulting in a non-cash accounting partial reversal of the 2020 impairment charge, recorded as a gain of $5.7 million through profit or loss. In 2022, Mr. Mikes saw a further recovery back to pre-pandemic levels comparable to 2019. COVID-19 restrictions were completely lifted in early 2022, and the restaurant industry saw a significant recovery thereafter. The Company concluded, in 2022, that the recoverable amount for the MRM Rights exceeded the carrying amount, resulting in a non-cash accounting partial reversal of the 2020 impairment charge, recorded as a gain of $9.0 million through profit or loss.

8. Intangible assets (continued):

(g) Impairment assessment (continued):

In 2021, following the negative impacts of the COVID-19 pandemic and an impairment loss of $6.1 million recorded in 2020, Oxford saw a recovery due to the relaxing of government restrictions, the transition back to in-person tutoring and the continued offering of virtual tutoring for most locations. The Company concluded, in 2021, that the recoverable amount for the OX Rights exceeded the carrying amount, resulting in a non-cash accounting partial reversal of the 2020 impairment charge, recorded as a gain of $1.2 million through profit or loss. In 2022, Oxford saw continued improvement in its operations and a return to pre-pandemic performance. The Company concluded, in 2022, that the recoverable amount for the OX Rights exceeded the carrying amount, resulting in a non-cash accounting partial reversal of the 2020 impairment charge, recorded as a gain of $1.8 million through profit or loss.

In 2021, LoyaltyOne saw the non-renewal and loss of two sponsors from the AIR MILES Program, and the emergence of the COVID-19 Omicron variant in November 2021, which negatively impacted results. Based on the assessments performed, the Company concluded that the carrying amount for the AIR MILES Rights exceeded the recoverable amount. As a result, the Company recorded an impairment loss of $5.2 million in connection with the AIR MILES Rights for the year ended December 31, 2021. In 2022, LoyaltyOne saw the loss of another significant AIR MILES sponsor, which negatively impacted results in the fourth quarter of 2022. Based on the assessments performed, the Company concluded that the carrying amount for the AIR MILES Rights exceeded the recoverable amount and as a result, the Company recorded an impairment loss of $14.4 million in connection with the AIR MILES Rights for the year ended December 31, 2022.

In 2022, the Canadian real estate market experienced a slowdown due to higher inflation and a steady rise in interest rates. Despite this slowdown, Sutton paid 100% of the fixed royalty and management fee for the year ended December 31, 2022. Based on the assessments performed, the Company concluded that the carrying amount for the SGRS Rights exceeded the recoverable amount and as a result, the Company recorded an impairment loss of $4.0 million in connection with the SGRS Rights for the year ended December 31, 2022. The impact from the rise in the risk-free rate on the discounted value of contractual cash flows was the predominant driver of impairment. There were no impairments or reversals related to the SGRS Rights for the year ended December 31, 2021.

As the carrying value of the SGRS Rights, OX Rights, MRM Rights and AIR MILES Rights approximate the estimated recoverable amount, a subsequent change in any key assumption utilized in the estimate of future cash flows may result in further adjustments. The Company also considers other reasonably possible scenarios where projected sales underlying the royalty payment are less than expected, along with other reasonably possible higher discount rates to determine whether the intangible assets would be impaired under those scenarios. As at December 31, 2022, the Company also tested the ML Rights in a similar manner described above and determined that the recoverable amount exceeded the carrying value by approximately $72.1 million (2021 – $72.8 million) and therefore no impairment exists. If the pre-tax discount rate was 4.2% higher, the recoverable amount would approximate carrying value.

9. 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. On April 20, 2022, DIV amended its Acquisition Facility to allow for a one-time advance of up to $9.0 million to be used to partially fund the repayment of DIV’s outstanding convertible debentures due on December 31, 2022 (“2022 Debentures”) and to extend the maturity date of the Acquisition Facility to April 20, 2026. The Company incurred transaction costs of $0.2 million, which were recorded to deferred financing fees on the balance sheet and will be amortized over the term of the Acquisition Facility.

On November 15, 2022, DIV drew $47.0 million on the Acquisition Facility to fund the purchase price of the acquisition of the Stratus Rights and on November 24, 2022, subsequent to completion of a public offering on November 23, 2022 (note 15), the Company partially repaid $43.5 million on the Acquisition Facility, of which $3.5 million remains outstanding at December 31, 2022. Each draw is interest only for the first six months and then amortizes over 60 months beginning April 15, 2023. The Acquisition Facility, net of deferred financing fees, is measured at amortized cost with a carrying value of $3.3 million as at December 31, 2022, of which $0.4 million is classified as short-term under accounts payable and accrued liabilities on the statement of financial position.

As at December 31, 2022 and 2021, the Company was in compliance with all financial covenants associated with its Acquisition Facility.

(Tabular amounts expressed in thousands of Canadian dollars)

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

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

As at December 31, 2022, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities[1]	Interest rate	Maturity date		Face value		Carrying value
ML LP term loan	BA + 2.00%	May 1, 2025	$	67,870	$	67,614
AM LP term loan	BA + 1.95%	Sep 30, 2026		17,400		17,283
SGRS LP term loan	BA + 1.95%	Jun 30, 2026		6,300		6,261
MRM LP term loan	BA + 1.95%	Jun 24, 2024		10,300		10,258
NNDH LP term loan	BA + 1.90%	Nov 15, 2024		14,500		14,427
OX LP term loan	BA + 1.95%	Apr 27, 2025		9,000		8,949
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027		20,316		20,188
			$	145,686	$	144,980

1) Bank loans on the statement of financial position includes $145 million term loan facilities plus $2.9 million long-term portion of the Acquisition Facility outstanding (note 9(a)).

Operating lines of credit	Interest rate	Maturity date		Maximum available		Available for use
ML LP term loan	Prime + 0.25%	May 1, 2025	$	1,000	$	1,000
AM LP term loan	BA + 1.95%	Sep 30, 2026		3,000		3,000
SGRS LP term loan	BA + 1.95%	Jun 30, 2026		500		500
MRM LP term loan	Prime + 0.25%	Jun 24, 2024		500		500
OX LP term loan	Prime + 0.25%	Apr 27, 2025		500		500
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027		677		677
			$	6,177	$	6,177

As at December 31, 2021, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities	Interest rate	Maturity date		Face value		Carrying value
ML LP term loan	BA + 2.50%	May 1, 2025	$	53,000	$	52,698
AM LP term loan	BA + 1.95%	Sep 30, 2026		17,400		17,254
SGRS LP term loan	BA + 1.95%	Jun 30, 2026		6,300		6,251
MRM LP term loan	BA + 1.95%	Jun 24, 2024		10,300		10,230
NNDH LP term loan	BA + 1.90%	Nov 15, 2024		14,500		14,389
OX LP term loan	BA + 1.95%	Apr 27, 2025		9,000		8,928
			$	110,500	$	109,750

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

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

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

ML LP has a credit agreement that originally consisted of a non-amortizing $34.6 million term loan and a $1.0 million demand operating facility from a Canadian chartered bank. The ML LP term loan and line of credit are secured by the ML Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement. On May 1, 2021, in connection with the Mr. Lube royalty rate increase and the addition of 13 stores to the Mr. Lube Royalty pool (note 8(a)), ML LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the ML LP credit facility agreement resulted in an increase to the term loan facility from $41.6 million to $53.0 million, an increase in the interest rate by 0.55%, and an extension of the maturity date from July 31, 2022 to May 1, 2025. On November 15, 2022, in connection with the Stratus acquisition (note 8(f)), ML LP amended its credit facility agreement with an increase to the term loan facility from $53.0 million to $68.0 million which included a reduction in the interest rate by 0.50%.

AM LP has a credit agreement that consists of a non-amortizing $17.4 million term loan facility and $3.0 million demand operating facility from a Canadian chartered bank. The AM LP term loan and line of credit are secured by the AIR MILES Rights and the royalties payable by LoyaltyOne Co. under the AIR MILES Licenses. On September 13, 2021, AM LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the AM LP credit facility resulted in a decrease in the interest rate by 0.30% and an extension of the maturity date from September 6, 2022 to September 30, 2026.

The AM Credit Agreement was amended and restated in March and September 2021 in order to, among other things, amend the financial covenants for each of the fiscal quarters of 2021 and the first two fiscal quarters of 2022. Subsequently, in September 2022, the AM Credit Agreement was amended and restated in order to, among other things, amend the financial covenants for the last two fiscal quarters of 2022. If AM LP had not entered into such amendments, AM LP would have been in breach of its financial covenants for all fiscal quarters in 2021 and 2022. Refer to subsequent events (note 24) regarding the partial paydown of the AM LP term loan.

SGRS LP has a credit agreement that consists of a non-amortizing $6.3 million term loan and a $0.5 million demand operating facility from a Canadian chartered bank. The SGRS LP term loan and line of credit are secured by the SGRS Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement. On June 11, 2021, SGRS LP amended its credit facility agreement, which consists of a non-amortizing term loan facility and an operating line of credit. The amendment to the SGRS LP credit facility resulted in a decrease in the interest rate by 0.05% and an extension of the maturity date from June 30, 2022 to June 30, 2026.

MRM LP has a credit agreement with a Canadian chartered bank that consists of a non-amortizing $10.3 million term loan and a $0.5 million line of credit. The MRM LP term loan and line of credit are secured by the MRM Rights and the royalties payable by Mr. Mikes under the Mr. Mikes Licence and Royalty Agreement. In February 2021, MRM LP negotiated a covenant amendment to its credit agreement, which included a suspension to its financial covenants for the quarters ended March 31, 2021 and June 30, 2021. In September 2021, MRM LP negotiated a similar covenant amendment that contained the same suspension for the quarters ended September 30, 2021 and December 31, 2021. If MRM LP had not entered into such covenant amendment, MRM LP would have been in breach of its financial covenants as of such dates.

NNDH LP, a wholly-owned subsidiary of DIV, has a credit agreement with a Canadian chartered bank that consists of a non-amortizing $14.5 million term loan. The NNDH LP term loan is secured by the NND Rights and the royalties payable by Nurse Next Door.

On April 27, 2020, OX LP entered into a credit agreement with a Canadian chartered bank that consists of a non-amortizing $9.0 million term loan and a $0.5 million line of credit. The OX LP term loan and line of credit are secured by the OX Rights and the royalties payable by Oxford under the Oxford Licence and Royalty Agreement.

On November 15, 2022, Strat-B LP, a wholly-owned subsidiary of DIV, entered into a credit agreement with a Canadian chartered bank that consists of a non-amortizing US$15.0 million term loan and US$0.5 million line of credit. The Strat-B LP loan and line of credit are secured by the Stratus Rights and the royalties payable by Stratus under the Stratus Licence and Royalty Agreement.

As at December 31, 2022 and 2021, the Company was in compliance with all financial covenants associated with its term loan facilities and operating lines of credit.

(Tabular amounts expressed in thousands of Canadian dollars)

10. Convertible debentures:

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

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

The Company may, at its option, elect to satisfy its obligation to repay the principal amount of the 2027 Debentures, which are to be redeemed or which have matured, by issuing shares to the holders of the convertible debentures. The number of shares to be issued will be determined by dividing $1,000 of principal amount of the debentures by 95% of the then current market price on the maturity date.

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

On May 4, 2022, ("Redemption Date"), the Company used the net proceeds from the Offering to complete the $52.5 million partial redemption of the principal amount of the 2022 Debentures outstanding plus accrued and unpaid interest at 5.25% up to, but excluding, the Redemption Date.

On December 20, 2022 (the "Final Redemption Date"), the Company redeemed the $5.0 million aggregate principal amount of 2022 Debentures issued and outstanding in accordance with the notice of redemption to the registered holders of its 2022 Debentures issued on November 9, 2022. The 2022 Debentures were redeemed at a redemption price equal to their principal amount, plus accrued and unpaid interest thereon up to, but excluding, the Final Redemption Date and the Debentures were de-listed from TSX subsequently thereafter.

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

		2022		2021
Principal amount - 2022 Debentures	$	57,500	$	57,500
Full Redemption - principal amount		(57,500)		-
Equity component		(4,312)		(4,312)
Unamortized deferred financing fees		-		(570)
Accretion on liability component		4,312		3,350
Current portion of convertible debentures	$	-	$	55,968

(Tabular amounts expressed in thousands of Canadian dollars)

10. Convertible debentures (continued):

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

		2022		2021
Principal amount - 2027 Debentures	$	52,500	$	-
Equity component		(3,074)		-
Unamortized deferred financing fees		(2,161)		-
Accretion on liability component		372		-
Long-term portion of convertible debentures	$	47,637	$	-

11. Interest rate swaps:

The Company has interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for a portion of its term loan facilities.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. There was a fair value gain of $3.7 million on interest rate swaps for the year ended December 31, 2022 (2021 – gain of $2.0 million). Refer to subsequent events (note 24) for interest rate swaps related to the Strat-B LP term loan.

The following table summarizes the interest rate swap agreements the Company has entered into as of December 31, 2022:

Term loan facilities	Effective date	Maturity date	Fixed interest rate		Notional amount
ML LP[1]	Jul 29, 2022	May 1, 2025	3.75%	$	39,750
ML LP[2]	Dec 15, 2022	May 1, 2025	6.09%		11,250
AM LP[3]	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

1) On May 1, 2021 ML LP amended its credit facility agreement, which resulted in an increase to its fixed interest rate by 0.55%. On November 15, 2022, ML LP amended its credit facility agreement, which resulted in a decrease to its fixed interest rate by 0.50%.
2) On December 15, 2022 ML LP entered into a swap agreement with a Canadian chartered bank to swap 75% of the incremental $15 million loan (see note 9(b)). The fixed interest rate includes an interest rate of 4.09% plus credit spread of 2.00%.
3) On September 13, 2021, AM LP amended its credit facility agreement, which resulted in a decrease to its fixed interest rate by 0.30%.

12. Exchangeable Units and Other:

The following table summarizes exchangeable units and other as at December 31, 2022 and 2021:

		December 31, 2022		December 31, 2021
Mr. Lube Class B Units	$	2,625	$	975
Mr. Mike's Class B Units		529		500
Mr. Mike's Class C Units		529		500
Oxford Minority Interest		33		33
	$	3,716	$	2,008

(Tabular amounts expressed in thousands of Canadian dollars)

12. Exchangeable Units and Other (continued):

(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 year ended December 31, 2022, MRM LP issued distributions of $0.3 million (2021 - $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 December 31, 2022, the MRM Units were valued at $1.1 million (2021 - $1.0 million) based on the DIV closing share price of $2.98 at period end (2021 - $2.82), multiplied by the total number of MRM Units of 355,032.

(b) ML Units:

As referenced in note 8(a), the $2.6 million (2021 - $1.0 million) consideration payable for the roll-in of 6 additional stores on May 1, 2022, was recorded to exchangeable units and other, with changes in the fair value recorded as a fair value adjustment on financial instruments in the statements of net income.

13. ROU asset and lease obligation:

In December 2020, DIV signed a ten-year lease agreement for its head office and obtained possession in January 2021. Under IFRS 16, DIV recognized a ROU asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. During the year ended December 31, 2022, the Company recorded $0.1 million (2021 - $0.1 million) as depreciation expense for the ROU asset and a nominal amount as other finance costs on the lease obligation. The Company’s annual fixed lease payments are approximately $0.1 million over the ten-year term of the lease.

14. Income taxes:

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

	Years ended December 31, 2022	2021
Deferred income tax expense	$ 2,319	$ 5,082
Current income tax expense	5,619	4,084
	$ 7,938	$ 9,166

Income tax expense as reported differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates to income before income taxes. The reasons for the difference are as follows:

	Years ended December 31, 2022	2021
Income before income taxes	$ 23,499	$ 32,684
Combined Canadian federal and provincial rates	27%	27%
Expected tax expense	$ 6,345	$ 8,825
Increased by:		
Permanent and other non-deductible differences	1,540	341
Change in unrecognized deferred tax assets	53	-
	$ 7,938	$ 9,166

(Tabular amounts expressed in thousands of Canadian dollars)

14. Income taxes (continued):

The tax effect of temporary differences that gives rise to the net deferred tax liabilities as at December 31, 2022 and 2021 are as follows:

	2022	2021
Intangible assets	$ 211	$ 227
Financing and share issuance costs	775	93
Convertible debentures	(730)	(260)
Other	(1,281)	(358)
Intangible assets	(13,180)	(11,595)
Net deferred income tax liability	$ (14,205)	$ (11,893)

The deferred tax liability as at December 31, 2022 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately $265.8 million (2021 - $199.2 million), which have increased due to the addition of the Stratus Rights. In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately $44.1 million at December 31, 2022 (2021 - $46.5 million) is allocated to the Company for tax purposes.

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

15. Share capital:

As at December 31, 2022, the authorized share capital of the Company consists of an unlimited number of common shares.

On November 23, 2022, the Company completed a public offering of 16,428,900 common shares, including 2,142,900 common shares pursuant to the full exercise of the over-allotment option, at a price of $2.80 per common share, for gross proceeds of $46.0 million. After deducting issuance costs of $2.7 million, net proceeds were $43.3 million. The deferred tax impact of $0.7 million on the share issue costs was recognized within share capital.

The Company has a dividend reinvestment plan ("DRIP") that allows eligible holders of the Company's common shares to reinvest some or all cash dividends paid in respect of their common shares in additional common shares of the Company. At the Company's election, these additional common shares may be issued from treasury or purchased on the open market. If the Company elects to issue common shares from treasury, the common shares will be purchased under the DRIP at a 3% discount to the volume weighted average of the closing price for the common shares on the TSX for the five trading days immediately preceding the relevant dividend payment date. The Company may, from time to time, change or eliminate the discount applicable to common shares issued from treasury.

16. 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 or share options, is 10% of the issued and outstanding common shares of the Company at the time of the grant.

(a) Restricted share units:

Under the Plan, the Company can issue RSUs 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 RSUs during the life of the RSU. Currently, all the outstanding RSUs will be settled in common shares, unless the RSU holder elects to settle the RSUs in cash, in certain instances.

(Tabular amounts expressed in thousands of Canadian dollars)

16. Share-based compensation (continued):

(a) Restricted share units (continued):

The number of RSUs outstanding as at December 31, 2022 and 2021 are as follows:

	2022			2021		
	Number of RSUs		Weighted average grant-date fair value	Number of RSUs		Weighted average grant-date fair value
Balance, beginning of year	452,178	$	2.05	499,382	$	2.24
Granted	338,533		2.86	405,331		2.52
Dividends earned	52,959		2.88	41,170		2.64
Settled	(293,558)		3.08	(431,246)		2.71
Forfeited	-		-	(46,643)		2.24
Cancelled	-		-	(15,816)		3.04
Balance, end of year	550,112	$	2.08	452,178	$	2.05
Unvested	550,112	$	2.08	452,178	$	2.05

As at December 31, 2022, approximately 44% of the unvested RSUs will vest in 2023, 35% will vest in 2024, and the remainder in 2025.

(b) Share options:

The following table summarizes the changes in the Company's share options during the years ended December 31, 2022 and 2021:

	2022			2021		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	3,041,667	$	3.06	2,300,000	$	3.26
Granted	791,667		2.80	816,667		2.52
Expired	(2,250,000)		3.25	-		-
Forfeited	-		-	(75,000)		3.19
Balance, end of year	1,583,334	$	2.66	3,041,667	$	3.06

(Tabular amounts expressed in thousands of Canadian dollars)

16. Share-based compensation (continued):

(b) Share options (continued):

The following tables summarizes information relating to outstanding and exercisable options as at December 31, 2022 and 2021:

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
May 6, 2026	2.52	3.35	791,667	527,778
January 1, 2027	2.80	4.01	791,667	263,889
Balance, December 31, 2022		3.68	1,583,334	791,667

Expiry Date	Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
November 23, 2022	3.53	0.90	250,000	250,000
October 11, 2022	3.22	0.78	2,000,000	2,000,000
May 6, 2026	2.52	4.35	791,667	263,889
Balance, December 31, 2021		1.72	3,041,667	2,513,889

The weighted average assumptions used in calculating the fair values of options granted in 2022 and 2021 are as follows:

	2022	2021
Risk free rate	1.39%	0.91%
Expected life	5.0 years	5.0 years
Expected volatility	34.30%	33.92%
Forfeiture rate	Nil	Nil
Expected dividends	7.75%	7.87%

17. Income per share:

	Year ended December 31, 2022	2021
Income for the year - basic	$ 15,561	$ 23,518
Interest expense on convertible debentures, net of tax(1)	-	2,204
Income for the year - diluted	$ 15,561	$ 25,722
Weighted average number of shares outstanding - basic	125,607,078	121,866,677
Effective impact of dilutive securities:		
Share options	126,320	27,252
RSUs	745,250	662,184
Convertible debentures - current & long term(1)	-	12,637,363
Exchangeable MRM units	355,032	355,032
Weighted average number of shares outstanding - diluted	126,833,680	135,548,507
Income per share		
Basic	$ 0.12	$ 0.19
Diluted	$ 0.12	$ 0.19

1) For the year ended December 31, 2022, 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.

(Tabular amounts expressed in thousands of Canadian dollars)

18. Other finance costs, net:

	Year ended December 31, 2022	2021
Finance income	$ 168	$ 29
Foreign exchange gain	32	-
Fair value adjustment on promissory note	(215)	143
Distributions on Exchangeable Units	(518)	-
Amortization of deferred financing charges	(851)	(831)
Accretion expense and other	(1,916)	(1,086)
	$ (3,300)	$ (1,745)

19. 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 7) is measured using Level 3 inputs.

The following table presents the carrying amounts of each category of financial assets and liabilities as at December 31, 2022:

As at December 31, 2022	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
Financial assets:					
Cash	$ -	$ 7,409	$ -	$ -	$ -
Royalties and management fees receivable	-	5,575	-	-	-
Amounts receivable	-	16	-	-	-
Interest rate swap assets	3,309	-	-	3,309	-
Investment in NND LP	42,339	-	-	-	42,339
	$ 45,648	$ 13,000	$ -	$ 3,309	$ 42,339
Financial liabilities:					
Accounts payable and accrued liabilities	$ -	$ 5,376	$ -	$ -	$ -
Bank loans, net of deferred financing charges	-	147,905	-	-	-
Promissory note	-	3,467	-	-	-
Lease obligation	-	770	-	-	-
Convertible debentures	-	47,637	47,637	-	-
Exchangeable units and other	3,716	-	-	3,716	-
	$ 3,716	$ 205,155	$ 47,637	$ 3,716	$ -

(Tabular amounts expressed in thousands of Canadian dollars)

19. Financial instruments (continued):

The following table presents the carrying amounts of each category of financial assets and liabilities as at December 31, 2021:

As at December 31, 2021	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
Financial assets:					
Cash	$ -	$ 8,939	$ -	$ -	$ -
Royalties and management fees receivable	-	4,911	-	-	-
Amounts receivable	-	11	-	-	-
Interest rate swap assets	647	-	-	647	-
Investment in NND LP	44,467	-	-	-	44,467
	$ 45,114	$ 13,861	$ -	$ 647	$ 44,467
Financial liabilities:					
Accounts payable and accrued liabilities	$ -	$ 2,544	$ -	$ -	$ -
Bank loans, net of deferred financing charges	-	109,750	-	-	-
Promissory note	-	3,109	-	-	-
Lease obligation	-	829	-	-	-
Convertible debentures	-	55,968	55,968	-	-
Interest rate swap liabilities	1,017	-	-	1,017	-
Exchangeable units and other	2,008	-	-	2,008	-
	$ 3,025	$ 172,200	$ 55,968	$ 3,025	$ -

The following table presents the changes in fair value measurements of the Company's investment in NND LP recognized at fair value at December 31, 2022 and 2021 and classified as Level 3:

	Years ended December 31, 2022	2021
Opening balance of Investment in NND LP	$ 44,467	$ 43,627
Distribution received	(5,005)	(4,906)
Unrealized fair value gain on Investment in NND LP	2,877	5,746
Balance of Investment in NND LP, end of year	$ 42,339	$ 44,467

20. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk, liquidity risk, currency risk and interest rate risk. This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Board of Directors has responsibility for the oversight of the Company's risk management framework. The Board of Directors has mandated the Audit Committee to review how management monitors compliance of the Company's risk management policies and procedures and review the adequacy of the risk management policies and procedures.

(Tabular amounts expressed in thousands of Canadian dollars)

20. Financial risk management (continued):

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is associated with the Company's cash, royalties and management fees receivable, amounts receivable and investment in NND LP.

Credit risk on the Company's cash are mitigated by holding these amounts with a Canadian chartered bank of high creditworthiness. Credit risk on the royalties and management fees receivable and the investment in NND LP is monitored through regular review of the operating and financing activities of the Company's Royalty Partners. The carrying amount of financial assets represents the maximum credit exposure.

The maximum exposure to credit risk at December 31, 2022 and 2021 were as follows:

	2022	2021
Cash	$ 7,409	$ 8,939
Royalties and management fees receivable	5,575	4,911
Amounts receivable	16	11
Investment in NND LP	42,339	44,467
	$ 55,339	$ 58,328

The aging of royalties and management fees receivable, as well as amounts receivable at December 31, 2022 and 2021 were as follows:

	2022	2021
Within 30 days	$ 5,575	$ 4,911
	$ 5,575	$ 4,911

(b) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due. In addition, the Company manages its liquidity risk by preparing rolling cash flow forecasts, taking into consideration various scenarios and assumptions, monitoring the business operations of its royalty partners, and monitoring compliance with the terms of financing arrangements.

As at December 31, 2022, the Company had a cash balance of $7.4 million (2021 - $8.9 million) and working capital of $8.7 million (2021 - working capital deficit of $47.5 million). The 2021 working capital deficit includes the current portion of the 2022 Debentures which were fully redeemed on December 20, 2022 (note 10).

20. Financial risk management (continued):

(b) Liquidity risk (continued):

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	Carrying amount	Contractual cash flow	2023	2024	2025	2026	Thereafter
Accounts payable and accrued liabilities	$ 5,376	$ 5,376	$ 5,376	$ -	$ -	$ -	$ -
Promissory note	3,467	4,952	-	-	-	-	4,952
Lease obligation	770	981	107	110	112	115	537
Long-term bank loans[1]	147,905	159,670	7,978	32,820	70,312	27,197	21,363
2027 Convertible debentures	47,637	66,478	3,150	3,150	3,150	3,150	53,878
Exchangeable ML LP units	2,625	2,625	2,625	-	-	-	-
Total contractual obligations	$ 207,780	$ 240,082	$ 19,236	$ 36,080	$ 73,574	$ 30,462	$ 80,730

1) Includes the impact of interest rate swap agreements, including the swap agreement entered January 17, 2023, between Strat-B LP and a Canadian chartered bank. Refer to subsequent events (note 24).

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

(c) Currency risk:

Currency risk is the risk that the fair value of future cash flows will fluctuate due to changes in foreign exchange rates.

DIV's exposure to foreign currency risk as at December 31, 2022 is outlined in the table below:

Expressed in thousands of US dollars	2022	2021
Cash and cash equivalents	$ 182	$ 84
Foreign currency exposure to DIV	$ 182	$ 84

A 10% strengthening and weakening of the US dollar against the Canadian dollar would have increased and decreased net income by a nominal amount as at December 31, 2022 and 2021.

Strat-B's exposure to foreign currency risk as at December 31, 2022 is outlined in the table below:

Expressed in thousands of Canadian dollars	2022	2021
Accounts payable and accrued liabilities	$ 345	$ -
Foreign currency exposure to Strat-B LP	$ 345	$ -

A 10% strengthening and weakening of the Canadian dollar against the US dollar would have increased and decreased net income by a nominal amount as at December 31, 2022.

(d) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company has bank loans that are subject to floating interest rates. As at December 31, 2022, the interest rate related to bank loans is mitigated by interest rate swap arrangements on $82.0 million of $149.2 million of the Company's term loan facilities (2021 - $72.6 million of $110.5 million of the Company's term loan facilities). Refer to subsequent events (note 24) for interest rate swaps related to the Strat-B LP term loan. Based on the balance outstanding on December 31, 2022, a one percentage point increase (decrease) in the interest rate would increase (decrease) interest expense by $0.4 million (2021 - $0.3 million).

(Tabular amounts expressed in thousands of Canadian dollars)

20. Financial risk management (continued):

(d) Interest rate risk (continued):

The investment in NND LP is a financial asset measured at fair value, which will partially fluctuate due to changes in the risk-free rate in addition to other factors including changes in the risk-premium and cash distributions received by the Company from NND LP.

(e) Capital management:

The Company's objective is to maintain a strong capital base to maintain investor, creditor and market confidence and to develop the business.

Management defines capital as the Company's total shareholders' equity, Acquisition Facility, term loan facilities and convertible debentures. The Board of Directors does not establish quantitative return on capital criteria for management. The Board of Directors reviews the capital structure on a quarterly basis.

In order to maintain or adjust the capital structure, the Company may issue new shares, warrants, or debt, draw on its operating line of credit, purchase shares for cancellation pursuant to normal course issuer bids, temporarily suspend the DRIP, reduce the monthly dividend or reduce debt.

21. Related party transactions:

In addition to information disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions during the years ended December 31, 2022 and 2021:

Key management personnel

Key management personnel of the Company includes Members of the Board of Directors, the President and CEO, and CFO. The table below provides a breakdown of the compensation of key management personnel included in net income:

	Years ended December 31, 2022	2021
Short-term benefits	$ 1,861	$ 1,622
Share-based compensation	1,177	1,005
	$ 3,038	$ 2,627

Maxam Services Agreement

The Company's President and CEO, Sean Morrison, and one of the Company's directors, Johnny Ciampi, are co-founders and managing partners of Maxam Capital Corp. ("Maxam"). The Company had a services agreement with Maxam (the "Maxam Services Agreement") whereby Maxam provided office space and administrative services to the Company. The Maxam Services Agreement was terminated on May 31, 2021. In May 2021, DIV entered into a services agreement and cost sharing agreement with Maxam Capital Management Ltd. ("MCM"), an entity in respect of which Mr. Morrison is a director, and Mr. Morrison and Mr. Ciampi are minority shareholders, through which DIV provides certain office space and certain administrative services to MCM (the "MCM Agreements"). The transactions under the Maxam Services Agreement and the MCM Agreements are not material to DIV, Maxam, MCM, Mr. Morrison or Mr. Ciampi but are identified here for purposes of full disclosure.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

(Tabular amounts expressed in thousands of Canadian dollars)

22. Supplemental cash flow information:

The following tables reconcile the movements in liabilities to cash flows arising from financing activities:

	Promissory note (note 8(d))	Acquisition Facility (note 9(a))	Bank loans (note 9(b))	Convertible debentures (note 10)	Lease obligations (note 13)	Total
Balance, December 31, 2021	$ 3,109	$ (118)	$ 109,750	$ 55,968	$ 829	$ 169,541
Changes from financing cash flows:						
Proceeds from issuance of debt	-	-	82,720	52,500	-	135,220
Repayment of debt	-	-	(43,630)	(57,500)	-	(101,130)
Debt financing costs	-	177	(1,155)	(2,460)	-	(3,438)
Payment of lease obligation	-	-	-	-	(105)	(105)
Liability-related other changes:						
Amortization of deferred financing charges	-	(59)	220	869	-	1,030
Accretion expense	358	-	-	1,334	46	1,738
Equity component of convertible debentures	-	-	-	(3,074)	-	(3,074)
Balance, December 31, 2022	$ 3,467	$ -	$ 147,905	$ 47,637	$ 770	$ 199,783

	Promissory note (note 8(d))	Acquisition Facility (note 9(a))	Bank loans (note 9(b))	Convertible debentures (note 10)	Lease obligations (note 13)	Total
Balance, December 31, 2020	$ 3,108	$ (247)	$ 98,557	$ 54,535	$ -	$ 155,954
Changes from financing cash flows:						
Proceeds from issuance of debt	-	-	11,400	-	-	11,400
Debt financing costs	-	-	(373)	-	-	(373)
Payment of lease obligation	-	-	-	-	42	42
Liability-related other changes:						
New lease	-	-	-	-	743	743
Amortization of deferred financing charges	-	129	166	535	-	831
Accretion expense	144	-	-	898	44	1,086
Fair value adjustment on promissory note	(143)	-	-	-	-	(143)
Balance, December 31, 2021	$ 3,109	$ (118)	$ 109,750	$ 55,968	$ 829	$ 169,541

23. Segment reporting:

The Company has only one business segment that relates to the acquisition of royalties.

The following table summarizes the Company's one business segment, separated by geographic region from which royalty income is generated:

	Canada	United States	Total
For the year ended December 31, 2022:			
Royalty income	$ 43,611	$ 1,040	$ 44,650
Management fees	533	-	533
Interest expenses on credit facilities	8,708	203	8,911
As at December 31, 2022:			
Non-current assets	361,664	81,273	442,937
Total assets	376,240	82,210	458,450
Non-current liabilities	197,511	20,188	217,700
Total liabilities	203,857	20,705	224,562

24. Subsequent events:

(a) Strat-B LP enters into swap agreement:

On January 17, 2023, Strat-B LP entered into a swap agreement with a Canadian chartered bank for 75% of its US$15.0 million credit facility or US$11.25 million. The swap agreement has a fixed rate of 3.61% plus credit spread of 2.11% and will mature on November 15, 2027.

(b) AM LP partial paydown of credit facility:

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.