Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2023 and 2022

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

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, 2023 and December 31, 2022;
- the consolidated statements of net income and other comprehensive income 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 material 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, 2023 and December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with IFRS Accounting Standards.

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, 2023. 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 8 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 $40,825 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 and planned business initiatives. 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 data for comparable companies. 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(e), 4(b), and 9(h) to the financial statements. The intangible assets are measured at historical cost and have a carrying value of $511,489 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 recoverable amount of intangible assets as a key audit matter. This matter represented a significant risk of misstatement given the high degree of estimation uncertainty in determining the recoverable amount. Minor changes in the projected sales underlying the royalty payment and pre-tax discount rates had a significant effect on the recoverable amount. These factors indicated a significant risk of material misstatement. As a result, specialized skills and knowledge and significant auditor judgment 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. 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 data for comparable companies. 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 IFRS Accounting Standards, 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 21, 2024

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

As at December 31, 2023 and 2022

	Note	December 31, 2023	December 31, 2022
Assets			
Current assets:			
Cash		$ 4,031	$ 7,409
Royalty and other receivables	6	5,857	5,591
Income tax receivable	16	328	-
Prepaid expenses and other		342	409
Interest rate swap assets	13	2,279	2,104
		12,837	15,513
Interest rate swap assets	13	-	1,205
Right-of-use asset and other		711	801
Note receivable	7	1,489	-
Investment in NND LP	8	40,825	42,339
Intangible assets	9	511,489	398,592
		$ 567,351	$ 458,450
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	10	$ 1,803	$ 5,376
Income tax payable	16	-	1,486
Bank loans, net of deferred financing charges	11	16,734	-
		18,537	6,862
Bank loans, net of deferred financing charges	11	205,375	147,905
Convertible debentures	12	48,586	47,637
Promissory notes	9(d), 9(g)	33,763	3,467
Exchangeable units and other	14	2,234	3,716
Interest rate swap liabilities	13	547	-
Lease obligation		706	770
Deferred income tax liability	16	20,199	14,205
Shareholders' equity:			
Share capital		260,142	253,139
Contributed surplus		40,351	39,776
Equity component of convertible debentures		5,127	5,127
Accumulated other comprehensive income		(229)	1,165
Accumulated deficit		(67,987)	(65,319)
		237,404	233,888
		$ 567,351	$ 458,450

Subsequent events (note 26)

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, 2023 and 2022

	Note		Years ended December 31, 2023		2022
Royalty income	5	$	55,962	$	44,650
Management fees			533		533
			56,495		45,183
Expenses:					
Salaries and benefits			2,480		2,271
Share-based compensation	18		1,381		1,176
General and administration			1,222		835
Professional fees			681		566
Impairment (reversal)	9(h)		(91)		7,553
			5,673		12,401
Income from operations			50,822		32,782
Interest expense on credit facilities			(13,126)		(8,911)
Other finance income (costs), net	20		3,811		(3,300)
Fair value adjustment on financial instruments	15		2,087		2,928
Income before income taxes			43,594		23,499
Income tax expense	16		11,871		7,938
Net income for the year		**$**	**31,723**	**$**	**15,561**
Other comprehensive (loss) income					
Item that may be reclassified subsequently to profit or loss:					
Foreign currency translation adjustment			(1,394)		1,165
Other comprehensive (loss) income for the year		**$**	**(1,394)**	**$**	**1,165**
Total comprehensive income for the year		**$**	**30,329**	**$**	**16,726**
Weighted average number of shares outstanding					
Basic (thousands)	19		142,676		125,607
Diluted (thousands)	19		144,051		126,834
Income per share					
Basic	19	$	0.22	$	0.12
Diluted	19	$	0.22	$	0.12

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)

As at December 31, 2023 and 2022

	Note	Common shares (thousands)		Share capital		Contributed surplus		Equity component of convertible debentures		Accumulated other comprehensive (loss) income		Accumulated deficit		Total equity
Balance, December 31, 2022		141,423	$	253,139	$	39,776	$	5,127	$	1,165	$	(65,319)	$	233,888
Common shares issued on DRIP	17	1,558		4,300		-		-		-		-		4,300
Common shares issued on RSU's settled		57		72		(700)		-		-		-		(628)
Share-based compensation - net of RSU's settled		-		-		1,275		-		-		-		1,275
Dividends declared		-		-		-		-		-		(34,391)		(34,391)
Settlement of consideration payable	9(a)	833		2,631		-		-		-		-		2,631
Comprehensive income		-		-		-		-		(1,394)		31,723		30,329
Balance, December 31, 2023		143,871	$	260,142	$	40,351	$	5,127	$	(229)	$	(67,987)	$	237,404

	Note	Common shares (thousands)		Share capital		Contributed surplus		Equity component of convertible debentures		Accumulated other comprehensive income		Accumulated deficit		Total equity
Balance, December 31, 2021		122,559	$	201,972	$	39,450	$	2,938	$	-	$	(52,835)	$	191,525
Common shares issued on public offering	17	16,429		44,004		-		-		-		-		44,004
Common shares issued on DRIP	17	1,270		3,545		-		-		-		-		3,545
Common shares issued on RSU's settled		82		196		(704)		-		-		-		(508)
Share-based compensation - net of RSU's settled		-		-		1,030		-		-		-		1,030
Dividends declared		-		-		-		-		-		(28,045)		(28,045)
Issuance of convertible debentures	12	-		-		-		2,189		-		-		2,189
Addition to intangible assets	9(a)	1,083		3,422		-		-		-		-		3,422
Comprehensive income		-		-		-		-		1,165		15,561		16,726
Balance, December 31, 2022		141,423	$	253,139	$	39,776	$	5,127	$	1,165	$	(65,319)	$	233,888

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, 2023 and 2022

	Note	Years ended December 31, 2023	2022
Operating activities:			
Net income		$ 31,723	$ 15,561
Adjustments for:			
Tax expense	16	11,871	7,938
Impairment (reversal)	9(h)	(91)	7,553
Depreciation expense		100	100
Share-based compensation		1,381	1,176
Fair value adjustments on financial instruments	15	(2,087)	(2,928)
Interest expense on credit facilities		13,126	8,911
Other finance income (costs), net	20	(3,811)	3,300
Interest paid		(13,170)	(8,911)
Interest received		243	168
Taxes paid		(7,691)	(6,252)
Distributions received from NND LP		5,095	5,005
Distributions paid on Exchangeable MRM Units	14(a)	(164)	(327)
Note receivable	7	(2,130)	-
Changes in non-cash operating items:			
Royalties and management fees receivable		(293)	(664)
Amounts receivable		(11)	(5)
Prepaid expenses and other		(586)	(761)
Accounts payable and accrued liabilities		(2,689)	(1,487)
Cash flows generated from operating activities		30,816	28,377
Financing activities:			
Proceeds from issuance of debt, net of fees	9,11	89,290	81,338
Proceeds from equity issuance, net of fees	17	-	43,602
Payment of lease obligations		(107)	(105)
RSUs settled in cash		(689)	(238)
Repayment of debt	11	(15,350)	(43,630)
Payment of dividends		(30,091)	(24,498)
Proceeds from issuance of convertible debentures, net of fees	12	-	50,400
Redemption of convertible debentures	12	-	(57,500)
Cash flows generated from financing activities		43,053	49,369
Investing activities:			
Additions to intangible assets	9	(77,215)	(79,304)
Purchase of fixed assets		(10)	(4)
Cash flows used in investing activities		(77,225)	(79,308)
Net decrease in cash		(3,356)	(1,562)
Cash, beginning of the year		7,409	8,939
Effect of foreign exchange rate changes on cash		(22)	32
Cash, end of the year		$ 4,031	$ 7,409

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 years ended December 31, 2023 and 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 licence and royalty arrangements are summarized below.

Sutton Group Realty Services Ltd. (“Sutton”): SGRS Royalties Limited Partnership (“SGRS LP”) (an entity controlled by the Company), owns the trademarks and certain other intellectual property rights utilized by Sutton in its residential real estate franchise business (the “SGRS Rights”). The Company granted Sutton the licence to use the SGRS Rights in exchange for a royalty payment currently equal to $65.906 per agent per month (the “Sutton Royalty Rate”) for the number of agents included in the royalty pool (the “Sutton Royalty Pool”).

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

AIR MILES Loyalty Inc. (“Loyalty Inc.”): AM Royalties Limited Partnership (“AM LP”) (a wholly owned subsidiary of the Company) owns the Canadian AIR MILES trademarks and certain related Canadian intellectual property rights (collectively, the “AIR MILES® Rights”) used by Loyalty Inc. (an affiliate of the Bank of Montreal) in operating the AIR MILES® reward program in Canada (the “AIR MILES® Program”). In accordance with the terms of two licence agreements with Loyalty Inc. (collectively, the “AIR MILES® Licences”), Loyalty Inc. has an exclusive right to use the AIR MILES® Rights in Canada in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES® Reward Program.

Mr. Mikes Restaurants Corporation (“Mr. Mikes”): MRM Royalties Limited Partnership (“MRM LP”) (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Mr. Mikes in its restaurant business (the “MRM Rights”). The Company granted Mr. Mikes the licence to use the MRM Rights in exchange for a royalty based on the actual system sales of the Mr. Mikes locations in the royalty pool, which was comprised of 44 Mr. Mikes Restaurants (the “Mr. Mikes Royalty Pool”).

Nurse Next Door Professional Homecare Services Inc. (“Nurse Next Door”): NND Royalties Limited Partnership (“NND LP”) (an entity that is majority-owned by the Company) has legal ownership of the trademarks and certain other intellectual property rights utilized by Nurse Next Door Professional Homecare Services Inc. (“Nurse Next Door”) in its premium home care business (the “NND Rights”) (note 8). NND LP granted Nurse Next Door the licence to use the NND Rights. The Company, through its ownership of NND LP Class A units, is currently entitled to receive a cash distribution of $5.1 million per year, which grows at a fixed rate of 2.0% per annum (the “DIV Distribution Entitlement”).

Oxford Learning Centres, Inc. (“Oxford”): OX Royalties Limited Partnership (“OX LP”) (an entity controlled by the Company) owns the trademarks and certain other intellectual property rights utilized by Oxford Learning Centres, Inc. (“Oxford”) in its supplemental education business (the “Oxford Rights”). The Company granted Oxford the licence to use the Oxford Rights in exchange for a royalty payment currently equal to 7.67% of the gross sales of Oxford locations in the royalty pool (the “Oxford Royalty Pool”).

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 increases each November at a rate of 5% in 2023, 2024, 2025 and 2026 and 4% thereafter.

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

Substantially all of the Company's operating revenues are earned from the receipt of royalties and management fees from its Royalty Partners. Accordingly, the revenues of the Company and its ability to pay dividends to shareholders are dependent on the ongoing ability of its Royalty Partners to generate cash and pay royalties and management fees to the Company.

Liquidity

Working capital is defined as current assets less current liabilities on the consolidated statements of financial position. As at December 31, 2023, the Company had cash of $4.0 million and a working capital deficit of $5.7 million (2022 - $7.4 million cash, positive working capital of $8.7 million). The working capital deficit includes the NNDH LP term loan (note 11(b)) which matures on November 15, 2024. The Company plans to refinance the NNDH LP term loan and extend the term before the maturity date and expects that the term extension will be completed in 2024. This is based on the Company's ability to generate positive cash flow from operations, including NND LP, and its history of being able to successfully refinance its debt.

In addition, subsequent to the year end, the Company reduced its liquidity risk and improved its working capital position as follows: (i) AM LP made a contractual partial principal repayment of $0.63 million and a voluntary $3.2 million partial principal paydown on its credit facility, further reducing the outstanding principal balance to $10.1 million; and (ii) DIV completed a $54.0 million bought deal public offering of common shares and used the net proceeds to pay down in full the remaining $48.2 million outstanding balance on the Acquisition Facility (defined below, refer to note 11(a)). Refer to subsequent events listed in note 26.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards. The consolidated financial statements were authorized and approved for issue by the Company's Board of Directors on March 21, 2024.

(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 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. Material accounting policies:

The Company has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, unless mentioned otherwise. The Company adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from January 1, 2023. The amendments require the disclosure of 'material', rather than significant, accounting policies. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in this note in certain instances (see note 3(l) for further information).

The material accounting policies of these consolidated financial statements are set out 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, Strat-B LP and BARB 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.

(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. Under the Company's licence and royalty agreements, the performance obligation is satisfied over time because the licensees simultaneously receive and consume the benefits from the Company licensing the intellectual property to them over the terms of their respective agreements. As a result, the Company recognizes royalty income based on the usage or sales that have occurred over a period of time on a monthly basis for practical purposes.
- 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 + Tires, Sutton, Oxford and BarBurrito are usually receivable within 15 to 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 Loyalty Inc.'s 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 on initial recognition, 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.

3. Material accounting policies (continued):

(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.

(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.

3. Material accounting policies (continued):

(i) Income tax (continued):

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.

(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.

3. Material accounting policies (continued):

(j) Financial instruments (continued):

- 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.

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) 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.

(l) Changes in material accounting policy:

The Company adopted *Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)* from January 1, 2023. Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

The amendments require the disclosure of ‘material’, rather than ‘significant’, accounting policies. The amendments also provide guidance on the application of materiality to disclosure of accounting policies, assisting entities to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed above (2022 - Significant accounting policies) in certain instances in line with the amendments.

(m) New and amended standards and interpretations:

Certain new or amended standards and interpretations became effective on January 1, 2023, but do not have an impact on the consolidated financial statements of the Company.

(n) Accounting standards and amendments issued but not yet adopted:

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

On January 23, 2020, the IASB issued Presentation of Financial Statements (Amendments to IAS 1) and on October 31, 2022, the IASB issued Non-current Liabilities with Covenants (Amendments to IAS 1). The amendments are effective for annual periods beginning on or after January 1, 2024. These amendments clarify the classification of liabilities as current or non-current and improve the information a company provides about long-term debt with covenants. For the purposes of non-current classification, the amendments remove the requirement for a right to defer settlement or roll over of a liability for at least twelve months to be unconditional. Instead, such a right must exist at the end of the reporting period and have substance. In addition, covenants with which a company must comply after the reporting date do not affect the liability’s classification at the reporting date. The Company has done an initial assessment of these amendments and does not anticipate an impact on the Company’s business, financial statements or disclosure. The Company intends to adopt these amendments in its consolidated financial statements for the annual period beginning on January 1, 2024.

3. Material accounting policies (continued):

(n) Accounting standards and amendments issued but not yet adopted (continued):

Certain other new or amended standards and interpretations are expected to become effective on January 1, 2024 and beyond. There are no new standards, interpretations or amendments that are expected to have a material impact to the Company's consolidated financial statements. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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, AM LP, NND LP, OX LP, Strat-B LP and BARB 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, AM LP, OX LP, Strat-B LP and BARB 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.

- Determination of business combination or asset acquisition:

  At the time of acquisition, the Company considers whether or not the transaction represents a business combination or an asset acquisition. A business consists of inputs and processes applied to those inputs that have the ability to contribute to the creation of outputs. This requires the Company to make certain judgments as to whether or not the assets acquired during the transaction include the inputs, processes and outputs necessary to constitute a business. If the assets acquired are not a business, the reporting entity shall account for the transaction or other event as an asset acquisition. Under a business combination, acquisition-related costs are recognized as an expense. Under an asset acquisition, acquisition-related 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, Stratus Rights and BarBurrito 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):

(b) Key estimates and assumptions:

- Fair value of exchangeable partnership units in SGRS LP, ML LP, MRM LP, OX LP and BARB 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 14).

- 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,		
		2023		2022
Mr. Lube + Tires	$	28,196	$	23,708
Stratus[1]		8,171		1,040
Mr. Mikes[2]		4,520		5,060
Oxford		4,481		4,199
AIR MILES®		4,352		6,497
Sutton		4,229		4,146
BarBurrito		2,013		-
	$	55,962	$	44,650

1) Stratus royalty income for the years ended December 31, 2023 and 2022 was US$6.1 million and US$0.77 million, respectively, translated at an average foreign exchange rate of $1.3493 to US$1 and $1.3521 to US$1, respectively.
2) For the years ended December 31, 2023 and 2022, Mr. Mikes royalty income includes payments of $0.2 million and $1.30 million, respectively, representing payments of deferred contractual royalty fees, which have been recognized as revenue upon collection.

(a) Mr. Lube + Tires:

Pursuant to the terms of the licence and royalty agreement dated August 19, 2015 (the "Mr. Lube + Tires Licence and Royalty Agreement"), the royalty paid by Mr. Lube + Tires to ML LP is calculated by multiplying the system sales of locations within the Mr. Lube + Tires Royalty Pool by an agreed royalty fee (the "Mr. Lube + Tires Royalty Rate"). In addition, ML LP is entitled to receive a make-whole payment in the event that a Mr. Lube + Tires 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 + Tires Royalty Rate. Mr. Lube + Tires will also, subject to meeting certain performance criteria, be provided opportunities to increase the Mr. Lube + Tires Royalty Rate in four, 0.5% increments (note 9(a)).

5. Royalty income (continued):

(a) Mr. Lube + Tires (continued):

Mr. Lube + Tires 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 + Tires Royalty Pool. On May 1, 2018, the Mr. Lube + Tires Royalty Rate on non-tire sales was increased from 6.95% to 7.45% and on May 1, 2021, the Mr. Lube + Tires Royalty Rate on non-tire sales was increased from 7.45% to 7.95%.

Effective May 1, 2022, the Mr. Lube + Tires Royalty Pool was adjusted to include the royalties from six new Mr. Lube + Tires locations and to remove two Mr. Lube + Tires 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 + Tires Royalty Pool increased to 139 locations effective May 1, 2022. Effective May 1, 2023, the Mr. Lube + Tires Royalty Pool was adjusted to include the royalties from five new Mr. Lube + Tires locations. With the adjustment for these five new locations, the Mr. Lube + Tires Royalty Pool increased to 144 locations effective May 1, 2023.

For the year ended December 31, 2022, the royalty paid by Mr. Lube + Tires included non-tire make-whole payments of $0.7 million for two stores that closed on August 13 and November 28, 2021. No make-whole payments were made for the year ended December 31, 2023.

(b) AIR MILES:

The royalty paid by Loyalty Inc. 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 9(c)).

Effective July 1, 2023, the monthly Sutton Royalty Rate increased from $64.614 per agent to $65.906 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2023.

(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 remained unchanged at 4.35%. Accordingly, the Mr. Mikes royalty transitioned from a fixed royalty to a variable top-line royalty.

As at December 31, 2023, DIV has $nil deferred contractual amounts otherwise owing (2022 - $0.2 million) as all deferred amounts have been recognized upon collection during the year ended December 31, 2023.

(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%.

(Tabular amounts expressed in thousands of Canadian dollars)

5. Royalty income (continued):

(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 increases each November at a rate of 5% in 2023, 2024, 2025 and 2026 and 4% thereafter.

(g) BarBurrito:

Pursuant to the terms of the licence and royalty agreement between BarBurrito and BARB LP dated October 4, 2023 (the "BARB Licence and Royalty Agreement"), the royalty paid by BarBurrito to BARB LP is $8.3 million per annum which grows at a fixed rate of 4% per annum for the first seven years and, commencing on January 1, 2031, will fluctuate based on the gross sales of the BarBurrito locations in the royalty pool.

6. Royalty and other receivables:

	December 31, 2023	December 31, 2022
Mr. Lube + Tires	$ 2,372	$ 2,102
BarBurrito	791	-
AIR MILES®	737	1,641
Stratus[1]	628	612
Oxford	483	445
Mr. Mikes	438	392
Sutton	383	376
Other	18	16
Nurse Next Door	7	7
	$ 5,857	$ 5,591

1) Stratus royalty receivable was US$0.47 million at December 31, 2023, translated at the year-end rate of $1.3243 to US$1. Stratus royalty receivable was US$0.45 million at December 31, 2022, translated at the year-end rate of $1.3544 to US$1.

The Company subsequently collected all royalties and management fees receivable at December 31, 2023 in January and February 2024.

7. Note receivable:

As at December 31, 2023, the Company had the following note receivable:

	December 31, 2023	December 31, 2022
Promissory note receivable	$ 1,489	$ -
	$ 1,489	$ -

On December 11, 2023, DIV issued a promissory note receivable with a face value of $2.1 million to a company unrelated to DIV. The note receivable is a 5-year, interest-bearing, non-amortizing promissory note with a discounted carrying value of $1.5 million. Interest shall bear a rate equal to Term CORRA plus 2.5% per annum, payable monthly. See (note 26(b)) for information on principal payments received subsequent to year end.

(Tabular amounts expressed in thousands of Canadian dollars)

8. 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 on 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, 2023, the DIV Distribution Entitlement was $5.1 million, gross and net of expenses incurred by NND LP (December 31, 2022 - $5.0 million, gross and net of expenses incurred by NND LP).

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, 2023 and 2022. The contractual cash flows receivable from Nurse Next Door were discounted at a rate of 15.6% (2022 - 14.4%). The total fair value of NND LP was $40.8 million (2022 - $42.3 million) and a fair value gain of $3.6 million was recorded during the year ended December 31, 2023 (2022 – fair value gain of $2.9 million). A one percentage point increase in the discount rate would decrease the fair value by $2.6 million (2022 - $3.1 million). A one percentage point decrease in the discount rate would increase the fair value by $3.1 million (2022 - $3.6 million).

9. Intangible assets:

	ML Rights (a)	AIR MILES Rights (b)	SGRS Rights (c)	MRM Rights (d)	Oxford Rights (e)	Stratus Rights (f) [1]	BarBurrito Rights (g) [2]	Total
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
(Impairment) reversals[3]	-	(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
Additions	5,938	-	-	-	-	-	108,674	114,612
Foreign exchange	-	-	-	-	-	(1,806)	-	(1,806)
(Impairment) reversals[3]	-	(3,778)	(621)	4,490	-	-	-	91
Balance, December 31, 2023	$ 181,173	$ 30,675	$ 27,653	$ 42,496	$ 41,351	$ 79,467	$ 108,674	$ 511,489

1) At December 31, 2023, the Stratus Rights were translated at the year-end rate of $1.3243 to US$1, giving rise to a $1.8 million foreign exchange loss recorded to other comprehensive income. At December 31, 2022, the Stratus Rights were translated at the year-end rate of $1.3544 to US$1, giving rise to a $1.6 million foreign exchange gain recorded to other comprehensive income.
2) The BarBurrito Rights were acquired on Oct 4, 2023 for a total purchase price of $108 million plus capitalized transaction costs, of which $72 million was paid in cash. The remaining consideration includes a $36 million promissory note (refer to note 9(g)).
3) Refer to note 9(h).

9. Intangible assets (continued):

(a) ML Rights:

ML LP licensed the ML Rights back to Mr. Lube + Tires for 99 years in exchange for a royalty payment equal to the system sales of the Mr. Lube + Tires locations in the Mr. Lube + Tires Royalty Pool multiplied by the Mr. Lube + Tires Royalty Rate (note 5(a)). Upon closing the Mr. Lube + Tires acquisition, ML LP issued 100,000,000 Class B, Class C, Class D, Class E, and Class F units to Mr. Lube + Tires. These units will become exchangeable into common shares of the Company through the exchange agreement dated August 19, 2015 among Mr. Lube + Tires, 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 + Tires 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 + Tires, the Company, and ML Royalties GP Inc.

In addition to the royalty, Mr. Lube + Tires 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 + Tires Royalty Pool may be adjusted, subject to meeting certain criteria, to include gross sales from new Mr. Lube + Tires locations less gross sales from Mr. Lube + Tires locations that were permanently closed during the preceding calendar year. In return for adding these net sales to the Mr. Lube + Tires Royalty Pool, Mr. Lube + Tires 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 + Tires 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 + Tires 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 + Tires into common shares of DIV, or settled in cash at DIV’s option, pursuant to the Mr. Lube + Tires Exchange Agreement.

On May 1, 2021, the Mr. Lube + Tires Royalty Pool was adjusted to include royalties from 13 new flagship Mr. Lube + Tires locations. The initial consideration previously paid by DIV on May 1, 2021 was $7.7 million, which represented 80% of the total estimated consideration for those 13 locations, which estimate was based on the forecast system sales of these 13 locations for the 2021 fiscal year. The remaining consideration payable for the net additional royalty revenue related to 7 of the 13 locations of $1.6 million was paid by DIV to Mr. Lube + Tires in cash on May 1, 2022 based the actual system sales of these locations for the year ending December 31, 2021. The remaining consideration for the net additional royalty revenue related to 6 of the 13 locations of $2.8 million was paid by DIV to Mr. Lube + Tires in cash on May 1, 2023 (the “2021 True-up Consideration”) based on the actual system sales of these locations for the year ending December 31, 2022.

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

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

9. Intangible assets (continued):

(a) ML Rights (continued):

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

To fund the 2023 Amendment Consideration and the 2021 True-up Consideration, DIV drew an additional $7.5 million on its Acquisition Facility (defined below, note 11(a)).

(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)).

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 11(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.

9. Intangible assets (continued):

(d) MRM Rights (continued):

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, 2023 and 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 14(b)). 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.

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, 2023, due to a change in the expected timing of the settlement of the promissory note, a $0.06 million gain (2022 - $0.2 million loss) was recorded in other finance costs (note 20). The MRM LP promissory note was discounted at a rate of 8.5% and had a carrying value of $3.8 million as at December 31, 2023 (2022 – $3.5 million).

(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 11(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 11(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 11(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.

9. Intangible assets (continued):

(e) Oxford Rights (continued):

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.

(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 11(a)), a $15 million increase in the senior credit facilities of the Company’s subsidiary ML LP (note 11(b)), and a US$15 million senior credit facility issued to Strat-B LP (note 11(b)). The Acquisition Facility was subsequently partially repaid in cash using funds received from the issuance of equity (note 17).

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) BarBurrito Rights:

On October 4, 2023, the Company acquired through BARB LP, the BarBurrito Rights for a purchase price of $72 million cash, a retained interest provided to BarBurrito through the issuance of 18,791 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 BARB LP having an agreed value of approximately $52,059, and a $36 million promissory note that is repayable by BARB LP to BarBurrito upon the first eligible new BarBurrito locations being added to the royalty pool, for a total of $108 million. The BARB LP promissory note was initially recorded at a fair value and is subsequently measured at amortized cost using the effective interest method. The promissory note was discounted at a rate of 8.5% and had a carrying value of $29.9 million as at December 31, 2023 (2022 – $nil).

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 October 4, 2023 among BarBurrito, BARB Royalties GP Inc. and the Company (the “BarBurrito Exchange Agreement”) upon the satisfaction of certain performance criteria.

The cash purchase price was funded with (i) $50.0 million drawn from DIV’s Acquisition Facility (defined below, refer to note 11(a)), (ii) $2.0 million from DIV’s cash on hand, (iii) $10.0 million drawn from a new senior credit facility issued to BARB LP (refer to note 11(b)), (iv) $10.0 million drawn from a new senior term credit facility issued to DIV (refer to note 11(b)).

(Tabular amounts expressed in thousands of Canadian dollars)

9. Intangible assets (continued):

(g) BarBurrito Rights (continued):

Commencing January 1, 2025, the BarBurrito locations into the royalty pool (the "BarBurrito Royalty Pool"), may be adjusted annually on January 1, subject to meeting certain criteria, to include gross sales from new BarBurrito locations less gross sales from BarBurrito locations that were permanently closed during the preceding calendar year. On the addition of net new BarBurrito locations into the BarBurrito Royalty Pool, BARB LP will first pay down the $36 million promissory note at an 8.75x multiple. After the promissory note has been repaid in full, on the addition of net new BarBurrito locations into the BarBurrito Royalty Pool, BarBurrito will be entitled to exchange Class B units of BARB LP (the "BARB Additional Entitlement") for common shares of DIV (or cash, at DIV's election) at a 7.75x multiple.

Commencing January 1, 2031 when the Royalty begins to fluctuate based on the gross sales of the BarBurrito Royalty Pool and subject to meeting certain performance criteria, BarBurrito will also be provided opportunities to increase the royalty rate then payable in six, 0.25% increments during the life of the royalty. The Class C, Class D, Class E, Class F, Class G and Class H units become exchangeable into common shares of the Company (or cash, at DIV's election) on increases in the BarBurrito royalty rate of 0.25% increments six times during the term of the BarBurrito Licence and Royalty Agreement.

In addition to the royalty payable to BARB LP, BarBurrito will pay DIV a management fee of $80,000 per annum for strategic advice and other services. The management fee will be adjusted on January 1st of each year for the change in the consumer price index for the most current twelve-month period available on such January 1, or if such index is replaced or renamed, the consumer price index with the broadest basket of goods for all of Canada.

(h) 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, 2023 and December 31, 2022. 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, 2023 and December 31, 2022. 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, 2023 and December 31, 2022:

December 31, 2023	ML Rights	AIR MILES Rights	SGRS Rights	MRM Rights	Oxford Rights	Stratus Rights	BarBurrito Rights
Pre-tax discount rate	11.4%	14.7%	17.5%	12.8%	13.0%	13.6%	11.2%
Terminal value growth rate	2.0%	2.0%	2.0%	2.0%	2.0%	4.0%	4.0%

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

During the year ended December 31, 2023, the pre-tax discount rate had a range from 11.2% to 17.5% (2022 – 11.7% to 16.8%), and the terminal value growth rate had a range of 2.0% to 5.0% (2022 - range from 2.0% to 4.0%).

(Tabular amounts expressed in thousands of Canadian dollars)

9. Intangible assets (continued):

(h) Impairment assessment (continued):

In 2022, Mr. Mikes saw a 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. In 2023, Mr. Mikes saw a continued growth. The Company concluded, in 2023, 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 $4.5 million through profit or loss.

In 2022, AIR MILES saw the loss of a significant 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 for the year ended December 31, 2022. On June 1, 2023, Loyalty Inc. acquired the AIR MILES Reward Program business from LoyaltyOne, Co. However, the loss of the sponsor proved to have a greater negative impact compared to 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 a further impairment loss of $3.8 million in connection with the AIR MILES Rights for the year ended December 31, 2023.

In 2023, the Canadian real estate market saw a continued slowdown, which began in late 2022, 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 years ended December 31, 2023 and 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 $0.6 million in connection with the SGRS Rights for the year ended December 31, 2023 (2022 - impairment loss of $4.0 million).

As the carrying value of the SGRS Rights, MRM Rights, OX Rights, Stratus 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, 2023, 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 $131.6 million (2022 – $72.1 million) and therefore no impairment exists. If the pre-tax discount rate was 9.74% higher, the recoverable amount would approximate carrying value.

10. Accounts payable and accrued liabilities

As at December 31, 2023 and 2022, the Company had the following accounts payable and accrued liabilities:

	December 31, 2023	December 31, 2022
Accrued liabilities	$ 633	$ 588
GST payable	410	347
Salaries and employment benefits	290	336
Trade payables	240	728
Interest accrued on long-term debt	230	203
Mr. Lube + Tires true-up payable	-	2,775
Short-term portion of Acquisition Facility[1]	-	399
	$ 1,803	$ 5,376

1) At December 31, 2022, the current portion of bank loans, net of deferred financing charges was $0.4 million (which was the short-term portion of Acquisition Facility, stated above), for the year ended December 31, 2023 the current portion of bank loans, net of deferred financing charges was $16.7 million (which includes $1.6 million relating to the short-term portion of Acquisition Facility), this has been reclassified to short-term debt (see note 11).

(Tabular amounts expressed in thousands of Canadian dollars)

11. Bank loans, net of deferred financing charges:

(a) Acquisition facility:

DIV has a $50.0 million senior secured credit facility (the “Acquisition Facility”) with a Canadian chartered bank, that matures on April 20, 2026.

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.

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 the closing of the 2022 Bought Deal Offering (defined in note 17), the Company partially repaid $43.5 million on the Acquisition Facility, of which $3.5 million remained outstanding at December 31, 2022.

On May 1, 2023, to fund the 2023 Amendment Consideration and the 2021 True-up Consideration (refer to note 9(a)), DIV drew an additional $7.5 million on its Acquisition Facility. On August 15, 2023, DIV used the incremental cash from the ML LP amended credit facility (refer to note 11(b)) to pay down $10.9 million of the outstanding balance on the Acquisition Facility, reducing the balance to $nil.

On October 2, 2023, DIV drew $50.0 million on the Acquisition Facility to fund the purchase price of the acquisition of the BarBurrito Rights. Each draw is interest only for the first twelve months and then amortized over 60 months beginning October 2, 2024. During the three months ended December 31, 2023, the Company partially repaid $0.9 million on the Acquisition Facility, of which $49.1 million remains outstanding at December 31, 2023. The Acquisition Facility amortizes over 60 months beginning October 2, 2024. The Acquisition Facility, net of deferred financing fees, is measured at amortized cost with a carrying value of $49.0 million as at December 31, 2023, of which $1.6 million is classified as short-term loan facilities on the statement of financial position (see below, refer to note 11(b)). As at December 31, 2023 and 2022, the Company was in compliance with all financial covenants associated with its Acquisition Facility. Refer to subsequent events (note 26(d)) regarding the paydown of the Acquisition Facility.

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

As at December 31, 2023, the Company had the following short and long-term loan facilities:

Short-term loan facilities	Interest rate	Maturity date	Face value	Carrying value
AM LP term loan[1]	CORRA + 2.25%	Sep 30, 2026	$ 628	$ 628
NNDH LP term loan	BA + 1.90%	Nov 15, 2024	14,500	14,465
DIV Acquisition Facility	CDOR + 2.50%	Apr 20, 2026	1,641	1,641
			$ 16,769	$ 16,734

Long-term loan facilities	Interest rate	Maturity date	Face value	Carrying value
ML LP term loan[2]	BA + 2.00%	May 1, 2025	$ 79,870	$ 79,701
AM LP term loan[1]	CORRA + 2.25%	Sep 30, 2026	13,327	13,223
SGRS LP term loan	BA + 1.95%	Jun 30, 2026	6,300	6,272
OX LP term loan	CDOR + 1.95%	Apr 27, 2025	9,000	8,970
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027	19,864	19,762
BARB LP term loan	CDOR + 2.50%	Oct 4, 2026	10,000	9,911
MRM LP term loan	CORRA + 2.80%	Dec 27, 2026	10,300	10,237
DIV term loan	CDOR + 2.50%	Apr 4, 2025	10,000	9,973
DIV Acquisition Facility	CDOR + 2.50%	Apr 20, 2026	47,450	47,326
			$ 206,111	$ 205,375

1) During the year ended December 31, 2023, AM LP made partial principal paydowns of $3.5 million, in aggregate, on its $17.4 million credit facility, reducing the balance to $13.9 million. Refer to subsequent events (note 26).
2) On August 15, 2023. ML LP amended its credit facility agreement with an increase to the term loan facility from $67.9 million to $79.9 million, of which $10.9 million was used to pay down the outstanding balance on the Acquisition Facility at that time.

(Tabular amounts expressed in thousands of Canadian dollars)

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

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

As at December 31, 2023, the Company had the following operating lines of credit:

Operating lines of credit	Interest rate	Maturity date		Maximum available		Available for use
ML LP term loan	Prime + 0.25%	May 1, 2025	$	1,000	$	1,000
AM LP term loan	BA + 1.95%	Sep 30, 2026		3,000		3,000
SGRS LP term loan	BA + 1.95%	Jun 30, 2026		500		500
MRM LP term loan	Prime + 0.25%	Dec 27, 2026		500		500
OX LP term loan	Prime + 0.25%	Apr 27, 2025		500		500
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027		662		662
BARB LP term loan	CDOR + 2.50%	Oct 4, 2026		500		500
			$	6,662	$	6,662

As at December 31, 2022, the Company had the following short and long-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	$	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	CDOR + 1.95%	Apr 27, 2025		9,000		8,949
Strat-B LP term loan	SOFR + 2.11%	Nov 15, 2027		20,316		20,188
DIV Acquisition Facility	CDOR + 2.25%	Apr 20, 2026		3,500		2,925
			$	149,186	$	147,905

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

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 + Tires under the Mr. Lube + Tires Licence and Royalty Agreement. On May 1, 2021, in connection with the Mr. Lube + Tires royalty rate increase and the addition of 13 stores to the Mr. Lube + Tires Royalty pool (note 9(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 9(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%. On August 15, 2023, in connection with the Acquisition Facility (note 11(a)), ML LP amended its credit facility agreement with an increase to the term loan facility from $68.0 million to $79.9 million.

AM LP has a credit agreement that consists of a non-amortizing $13.9 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 Loyalty Inc. under the AIR MILES Licenses.

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

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

The AM Credit Agreement was amended and restated in September 2022 in order to, among other things, amend the financial covenants for the last two fiscal quarters of 2022. The AM Credit Agreement was further amended and restated in June 2023, in order to, among other things, amend the financial covenants for the second and third quarter of 2023 (as it was in compliance in the first quarter of 2023). The AM Credit Agreement was further amended and restated in December 2023, in order to, among other things, amend the financial covenants for the last fiscal quarter of 2023 and the first fiscal quarter of 2024. If AM LP had not entered into such amendments, AM LP would have been in breach of its financial covenants for the fiscal quarters referenced above in 2022 and 2023. Refer to subsequent events (note 26) regarding the further 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.

On December 27, 2023, MRM LP amended its credit facility agreement to extend the maturity date from June 24, 2024 to December 27, 2026. The amendment to the MRM LP credit facility resulted in an increase in the credit spread by 0.55%.

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 a 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.

On October 4, 2023, BARB LP, a wholly-owned subsidiary of DIV, entered into a credit agreement with a Canadian chartered bank that consists of a non-amortizing $10.0 million term loan and a $0.5 million line of credit. The BARB LP loan and line of credit are secured by the BarBurrito Rights and the royalties payable to BarBurrito under the BarBurrito Licence and Royalty Agreement.

On October 4, 2023, to partially fund the purchase price of the acquisition of the BarBurrito Rights, DIV entered into a new senior credit agreement with a Canadian chartered bank that consists of a non-amortizing $10.0 million term loan.

As at December 31, 2023 and 2022, the Company was in compliance with all financial covenants associated with its term loan facilities and operating lines of credit.

12. 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 2022 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.

(Tabular amounts expressed in thousands of Canadian dollars)

12. Convertible debentures (continued):

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

On May 4, 2022 (the "Redemption Date"), the Company used the net proceeds from the 2022 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:

	December 31, 2023	December 31, 2022
Principal amount - 2022 Debentures	$ -	$ 57,500
Full Redemption - principal amount	-	(57,500)
Equity component	-	(4,312)
Accretion on liability component	-	4,312
Current portion of convertible debentures	$ -	$ -

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

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

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

	December 31, 2023	December 31, 2022
Principal amount - 2027 Debentures	$ 52,500	$ 52,500
Equity component	(3,074)	(3,074)
Unamortized deferred financing fees	(1,738)	(2,161)
Accretion on liability component	898	372
	$ 48,586	$ 47,637

(Tabular amounts expressed in thousands of Canadian dollars)

13. 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 loss of $1.6 million on interest rate swaps for the year ended December 31, 2023 (2022 – gain of $3.7 million).

The following table summarizes the interest rate swap agreements the Company has entered into as of December 31, 2023:

Term loan facilities	Effective date	Maturity date	Fixed interest rate	Notional amount
ML LP	Jul 29, 2022	May 1, 2025	3.75%	$ 39,750
ML LP	Dec 15, 2022	May 1, 2025	6.09%	11,250
ML LP[1]	Sept 15, 2023	May 1, 2025	7.58%	9,000
AM LP	Aug 19, 2022	Sep 30, 2026	5.39%	8,700
MRM LP[2]	Jul 25, 2019	Jun 24, 2024	4.05%	10,300
NNDH LP	Feb 12, 2020	Nov 15, 2024	3.98%	7,500
OX LP	Aug 26, 2020	Apr 27, 2025	2.96%	4,500
Strat-B LP	Jan 1, 2023	Nov 15, 2027	5.72%	14,898
BARB LP[3]	Nov 2, 2023	Oct 4, 2026	7.21%	7,500

1) Effective September 15, 2023, ML LP entered into a swap agreement with a Canadian chartered bank to swap 75% of the incremental $12 million loan (refer to note 11(b)). The fixed interest rate includes an interest rate of 5.58% plus credit spread of 2.00%.
2) On January 24, 2024, due to the amendment of the credit facility agreement (refer to note 11(b)), the credit spread on the swapped portion of the MRM LP term loan was subsequently increased by 0.55%, resulting in a fixed interest rate of 4.60%.
3) Effective November 2, 2023, BARB LP entered into a swap agreement with a Canadian chartered bank to swap 75% of the incremental $10 million loan (refer to note 11(b)). The fixed interest rate includes an interest rate of 4.71% plus credit spread of 2.50%.

14. Exchangeable units and other:

The following table summarizes exchangeable units and other as at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Mr. Lube + Tires Class B units	$ 1,181	$ 2,625
Mr. Mike's Class B units	484	529
Mr. Mike's Class C units	484	529
BarBurrito minority interest	52	-
Oxford minority interest	33	33
	$ 2,234	$ 3,716

(a) ML Units:

The balance as at December 31, 2023 of $1.2 million (December 31, 2022 - $2.6 million) in exchangeable units and other relates to 20% consideration payable to Mr. Lube + Tires for the 2023 addition of 5 locations to be paid to Mr. Lube + Tires on May 1, 2025.

(Tabular amounts expressed in thousands of Canadian dollars)

14. Exchangeable Units and Other (continued):

(b) MRM Units:

Mr. Mikes is entitled to receive distributions from MRM LP on the Initial Retained Interest on a pro rata basis with the limited partnership units of MRM LP (the "MRM Units") held by DIV. The MRM Units are recorded as a liability and measured at fair value. The distributions issued by MRM LP to Mr. Mikes are recorded as an expense in the statements of net income. During the year ended December 31, 2023 MRM LP issued distributions of $0.2 million (2022 - $0.5 million) to Mr. Mikes.

The fair value of the MRM Units is determined at the end of each period by multiplying the number of MRM Units held by Mr. Mikes at the end of the period by the closing price of DIV shares on the last business day of the period. As at December 31, 2023 the MRM Units were valued at $1.0 million (December 31, 2022 - $1.1 million) based on the DIV closing share price of $2.73 as at December 31, 2023 (December 31, 2022 - $2.98), multiplied by the total number of MRM Units of 355,032.

15. Fair value adjustment on financial instruments:

	Years ended December 31, 2023	2022
Investment in NND royalties LP	$ 3,581	$ 2,877
MRM LP exchangeable units	89	85
ML LP exchangeable units	-	(3,714)
Final share settlement of ML 2022 roll-in	(6)	-
Interest rate swaps	(1,577)	3,680
	$ 2,087	$ 2,928

16. Income taxes:

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

	Years ended December 31, 2023	2022
Deferred income tax expense	$ 5,993	$ 2,319
Current income tax expense	5,878	5,619
	$ 11,871	$ 7,938

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

	Years ended December 31, 2023	2022
Income before income taxes	$ 43,594	$ 23,499
Combined Canadian federal and provincial rates	27%	27%
Expected tax expense	$ 11,770	$ 6,345
Increased by:		
Permanent and other non-deductible differences	154	1,540
Change in unrecognized deferred tax assets	(53)	53
	$ 11,871	$ 7,938

(Tabular amounts expressed in thousands of Canadian dollars)

16. Income taxes (continued):

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

	December 31, 2023	December 31, 2022
Financing and share issuance costs	$ 478	$ 775
Convertible debentures	(588)	(730)
Other	(2,226)	(1,281)
Intangible assets	(17,863)	(12,969)
Net deferred income tax liability	$ (20,199)	$ (14,205)

The deferred tax liability as at December 31, 2023 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately $358.8 million (December 31, 2022 - $265.8 million). In addition, pursuant to NND LP's limited partnership agreement dated November 15, 2019, its undepreciated capital cost allowance of approximately $42.0 million at December 31, 2023 (December 31, 2022 - $44.1 million) is allocated to the Company for tax purposes.

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

17. Share capital:

As at December 31, 2023, the authorized share capital of the Company consists of an unlimited number of common shares.

On November 23, 2022, the Company completed a bought deal public offering of 16,428,900 common shares (the "2022 Bought Deal Offering"), 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.

18. 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 (RSU's):

Under the Plan, the Company can issue RSU's whereby each RSU is equal in value to one common share of the Company and is entitled to dividends that would arise thereon if it was an issued and outstanding common share. The notional dividends are recorded as additional issuance of RSUs during the life of the RSU. Currently, all the outstanding RSU's will be settled in common shares, unless the RSU holder elects to settle the RSU's in cash, in certain instances.

(Tabular amounts expressed in thousands of Canadian dollars)

18. Share-based compensation (continued):

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

The number of RSU's outstanding as at December 31, 2023 and 2022 is as follows:

			2023			2022
	Number of RSUs		Weighted average grant-date fair value	Number of RSUs		Weighted average grant-date fair value
Balance, beginning of year	550,112	$	2.08	452,178	$	2.05
Granted	335,919		3.00	338,533		2.86
Dividends earned	70,139		2.83	52,959		2.88
Settled	(328,688)		2.78	(293,558)		3.08
Balance, end of year	627,482	$	2.29	550,112	$	2.08
Vested, but not settled	(5,059)		3.18	-		-
Unvested	622,423	$	2.29	550,112	$	2.08

As at December 31, 2023, approximately 46% of the unvested RSU's will vest in 2024, 34% will vest in 2025, and the remainder in 2026.

(b) Share options:

The following table summarizes the changes in the Company's share options during the years ended December 31, 2023 and 2022:

			2023			2022
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Balance, beginning of year	1,583,334	$	2.66	3,041,667	$	3.06
Granted	791,667		3.00	791,667		2.80
Expired	-		-	(2,250,000)		3.25
Balance, end of year	2,375,001	$	2.78	1,583,334	$	2.66

The following tables summarize information relating to outstanding and exercisable options as at December 31, 2023 and 2022:

Expiry Date		Exercise Price	Weighted average remaining life (years)	Options outstanding	Options exercisable
May 6, 2026	$	2.52	2.35	791,667	791,667
January 1, 2027		2.80	3.01	791,667	527,778
January 1, 2028		3.00	4.01	791,667	263,889
Balance, December 31, 2023			3.12	2,375,001	1,583,334

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

(Tabular amounts expressed in thousands of Canadian dollars)

18. Share-based compensation (continued):

(b) Share options (continued):

The weighted average assumptions used in calculating the fair values of options granted in 2023 and 2022 are as follows:

	2023	2022
Risk free rate	3.34%	1.39%
Expected life	5.0 years	5.0 years
Expected volatility	34.59%	34.30%
Forfeiture rate	Nil	Nil
Expected dividends	8.05%	7.75%

19. Income per share:

	Years ended December 31, 2023	2022
Income for the year - basic and diluted	$ 31,723	$ 15,561
Weighted average number of shares outstanding - basic (thousands)	142,676	125,607
Effective impact of dilutive securities (thousands):		
Share options	120	126
RSUs	900	746
Convertible debentures[(1)]	-	-
Exchangeable MRM units	355	355
Weighted average number of shares outstanding - diluted (thousands)	144,051	126,834
Income per share		
Basic	$ 0.22	$ 0.12
Diluted	$ 0.22	$ 0.12

1) For the years ended December 31, 2023 and 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.

20. Other finance costs, net:

	Years ended December 31, 2023	2022
Fair value adjustment on promissory notes	$ 5,704	$ (215)
Finance income	243	168
Foreign exchange (loss) gain	(22)	32
Distributions on Exchangeable Units	(164)	(518)
Amortization of deferred financing charges	(739)	(1,916)
Accretion expense and other	(1,211)	(851)
	$ 3,811	$ (3,300)

(Tabular amounts expressed in thousands of Canadian dollars)

21. Financial instruments:

The Company must classify fair value measurements according to a hierarchy that reflects the significance of the inputs used in performing such measurements. The Company's fair value hierarchy comprises the following levels:

- Level 1 – quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – pricing inputs are other than quoted in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date.
- Level 3 – valuations in this level are those with inputs for the asset or liability that are not based on observable data.

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of the term loan facilities approximate their fair value as these facilities bear interest at floating market interest rates. The fair value of the term loan facilities is measured using Level 2 inputs. The fair value of the convertible debentures is measured using Level 1 inputs. The fair value of the MRM Units, ML Units, note receivable and the interest rate swap liabilities are measured using Level 2 inputs. The fair value of the investment in NND LP (note 8) 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, 2023:

As at December 31, 2023	Carrying value		Fair value hierarchy		
	FVTPL	Amortized cost	Level 1	Level 2	Level 3
Financial assets:					
Cash	$ -	$ 4,031	$ 4,031	$ -	$ -
Royalty and other receivables	-	5,857	-	5,857	-
Interest rate swap assets	2,279	-	-	2,279	-
Note receivable	-	1,489	-	1,489	-
Investment in NND LP	40,825	-	-	-	40,825
	$ 43,104	$ 11,377	$ 4,031	$ 9,625	$ 40,825
Financial liabilities:					
Accounts payable and accrued liabilities	$ -	$ 1,803	$ -	$ 1,803	$ -
Bank loans, net of deferred financing charges	-	222,109	-	222,109	-
Promissory notes	-	33,763	-	33,763	-
Interest rate swap liabilities	547	-	-	547	-
Lease obligation	-	706	-	706	-
Convertible debentures	-	48,586	48,586	-	-
Exchangeable units and other	2,234	-	-	2,234	-
	$ 2,781	$ 306,967	$ 48,586	$ 261,162	$ -

(Tabular amounts expressed in thousands of Canadian dollars)

21. Financial instruments (continued):

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	$ 7,409	$ -	$ -
Royalties and management fees receivable	-	5,591	-	5,591	-
Interest rate swap assets	3,309	-	-	3,309	-
Investment in NND LP	42,339	-	-	-	42,339
	$ 45,648	$ 13,000	$ 7,409	$ 8,900	$ 42,339
Financial liabilities:					
Accounts payable and accrued liabilities	$ -	$ 5,376	$ -	$ 5,376	$ -
Bank loans, net of deferred financing charges	-	147,905	-	147,905	-
Promissory notes	-	3,467	-	3,467	-
Lease obligation	-	770	-	770	-
Convertible debentures	-	47,637	47,637	-	-
Exchangeable units and other	3,716	-	-	3,716	-
	$ 3,716	$ 205,155	$ 47,637	$ 161,234	$ -

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, 2023 and 2022 and classified as Level 3:

	Years ended December 31, 2023	2022
Opening balance of Investment in NND LP	$ 42,339	$ 44,467
Distribution received	(5,095)	(5,005)
Unrealized fair value gain on Investment in NND LP	3,581	2,877
Balance of Investment in NND LP, end of year	$ 40,825	$ 42,339

22. 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)

22. 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, 2023 and 2022 were as follows:

	2023	2022
Cash	$ 4,031	$ 7,409
Royalty and other receivables	5,857	5,591
Note receivable	1,489	-
Investment in NND LP	40,825	42,339
	$ 52,202	$ 55,339

The aging of royalties and management fees receivable, as well as amounts receivable at December 31, 2023 and 2022 were as follows:

	2023	2022
Within 30 days	$ 5,857	$ 5,591
	$ 5,857	$ 5,591

(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, 2023, the Company had a cash balance of $4.0 million (2022 - $7.4 million) and a working capital deficit of $5.7 million (2022 - positive working capital of $8.7 million). The working capital deficit includes the current portion of bank loans. Refer to the *liquidity* section in *Nature of operations* (note 1).

22. 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:

(000's)	Carrying amount	Contractual cash flow	2024	2025	2026	2027	Thereafter
Accounts payable and accrued liabilities	$ 1,803	$ 1,803	$ 1,803	$ -	$ -	$ -	$ -
Promissory notes	33,763	40,952	-	-	-	-	40,952
Lease obligation	706	874	110	112	115	117	420
Long-term bank loans	158,049	178,965	9,430	104,645	43,958	20,932	-
Short-term bank loans	14,465	15,199	15,199	-	-	-	-
2027 Convertible debentures	48,586	63,525	3,150	3,150	3,150	54,075	-
Acquisition Facility[1,2]	48,967	57,577	5,704	13,186	38,688	-	-
Exchangeable ML LP units	1,181	1,181	-	1,181	-	-	-
AM LP term loan contractual paydown	628	628	628	-	-	-	-
Total contractual obligations	$ 308,148	$ 360,704	$ 36,023	$ 122,274	$ 85,911	$ 75,124	$ 41,372

1) Subsequent to December 31, 2023, the Acquisition Facility has been fully paid down (refer to subsequent events note 26(d)).
2) Includes $1.6 million related to the short-term portion of the Acquisition Facility outstanding.

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, 2023 and 2022 is outlined in the table below:

Expressed in thousands of US dollars	2023	2022
Cash and cash equivalents	$ 35	$ 182
Foreign currency exposure to DIV	$ 35	$ 182

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, 2023 and 2022.

Strat-B's exposure to foreign currency risk as at December 31, 2023 and 2022 is outlined in the table below:

Expressed in thousands of Canadian dollars	2023	2022
Accounts payable and accrued liabilities	$ 3	$ 345
Foreign currency exposure to Strat-B LP	$ 3	$ 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, 2023 and 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, 2023, the interest rate related to bank loans is mitigated by interest rate swap arrangements on $113.4 million of $173.8 million of the Company's term loan facilities (2022 - $82.0 million of $149.2 million of the Company's term loan facilities). Of the $222.9 million in total bank loan facilities, $49.1 million related to the short and long-term Acquisition Facility outstanding. Based on the balance outstanding on December 31, 2023, a one percentage point increase (decrease) in the interest rate would increase (decrease) interest expense by $0.6 million (2022 - $0.4 million).

(Tabular amounts expressed in thousands of Canadian dollars)

22. Financial risk management (continued):

(d) Interest rate risk (continued):

The Company has a note receivable that are subject to floating interest rates. As at December 31, 2023, the Company had a note receivable of $2.1 million. Based on the balance outstanding on December 31, 2023, a one percentage point increase in the interest rate would increase (decrease) interest receivable by a nominal amount.

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 review 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.

23. 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, 2023 and 2022:

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,	
	2023	2022
Short-term benefits	$ 2,140	$ 1,861
Share-based compensation	1,379	1,177
	$ 3,519	$ 3,038

MCM Agreement

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 (Chief Executive Officer of DIV) is a director, and Mr. Morrison and Mr. Ciampi (a Director of DIV) are minority shareholders, through which DIV provides certain office space and certain administrative services to MCM (the "MCM Agreements"). The transactions under the MCM Agreements are not material to DIV.

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)

24. Supplemental cash flow information:

The following table reconcile the movements in liabilities to cash flows arising from financing activities for the year ended December 31, 2023:

	Promissory notes (note 9(d),(g))	Acquisition Facility (note 11(a))	Bank loans (note 11(b))	Convertible debentures (note 12)	Lease obligations	Total
Balance, December 31, 2022	$ 3,467	$ 3,323	$ 144,405	$ 47,637	$ 770	$ 199,606
Changes from financing cash flows:						
Proceeds from issuance of debt, net of fees	-	57,496	31,794	-	-	89,290
Repayment of debt	-	(11,905)	(3,445)	-	-	(15,350)
Payment of lease obligation	-	-	-	-	(107)	(107)
Liability-related other changes:						
Amortization of deferred financing charges	-	54	262	423	-	739
BARB LP promissory note	36,000	-	-	-	-	36,000
Accretion expense	(5,704)	-	-	526	43	(5,135)
Foreign exchange	-	-	126	-	-	126
Equity component of convertible debentures	-	-	-	-	-	-
Balance, December 31, 2023	$ 33,763	$ 48,968	$ 173,142	$ 48,586	$ 706	$ 305,169

The following table reconcile the movements in liabilities to cash flows arising from financing activities for the year ended December 31, 2022:

	Promissory notes (note 9(d),(g))	Acquisition Facility (note 11(a))	Bank loans (note 11(b))	Convertible debentures (note 12)	Lease obligations	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, net of fees	-	47,000	34,161	50,040	-	131,201
Repayment of debt	-	(43,500)	(130)	(57,500)	-	(101,130)
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
Foreign exchange	-	-	404	-	-	404
Equity component of convertible debentures	-	-	-	(3,074)	-	(3,074)
Balance, December 31, 2022	$ 3,467	$ 3,323	$ 144,405	$ 47,637	$ 770	$ 199,606

(Tabular amounts expressed in thousands of Canadian dollars)

25. 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, 2023:			
Royalty income	$ 47,791	$ 8,171	$ 55,962
Management fees	533	-	533
Interest expenses on credit facilities	11,919	1,207	13,126
As at December 31, 2023:			
Non-current assets	475,047	79,466	554,514
Total assets	486,860	80,492	567,351
Non-current liabilities	291,451	19,959	311,410
Total liabilities	310,025	19,923	329,947

26. Subsequent events:

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

(a) AM LP partial paydown of credit facility:

On February 20, 2024, AM LP made a contractual $0.6 million partial principal paydown on its credit facility, reducing the outstanding principal balance to $13.3 million.

In addition, on March 12, 2024, AM LP made a voluntary $3.2 million partial principal paydown on its credit facility, further reducing the outstanding principal balance to $10.1 million.

(b) DIV received partial payment on the note receivable:

On February 6, 2024, DIV received a voluntary $0.3 million partial principal payment on its note receivable, reducing the outstanding balance to $1.8 million.

(c) DIV announced closing of $54.0 million bought deal public offering of common shares:

On February 23, 2024, DIV closed its bought deal public offering of 20,320,500 common shares (the "2024 Bought Deal Offering"), including 2,650,500 common shares issued pursuant to the full exercise of the over-allotment option, at a price of $2.66 per common share for total gross proceeds of approximately $54.0 million.

(d) Acquisition Facility paydown:

On January 4 and February 2, 2024, the Company partially repaid a further $0.9 million, in aggregate, on the Acquisition Facility. On February 26, 2024, DIV used the incremental cash from the net proceeds of the 2024 Bought Deal Offering (refer to note 26(c)) to pay down in full the remaining $48.2 million outstanding balance on the Acquisition Facility.

(e) Dividend increase:

On February 14, 2024, DIV's board of directors approved an increase in DIV's annual dividend policy from 24.5 cents per share to 25.0 cents per share effective March 1, 2024, an increase of 2.0%.