Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2014 and 2013

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Diversified Royalty Corp.

We have audited the accompanying consolidated financial statements of Diversified Royalty Corp., which comprise the consolidated statements of financial position as at December 31, 2014 and December 31, 2013, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Diversified Royalty Corp. as at December 31, 2014 and December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Accountants

March 20, 2015
Vancouver, Canada

DIVERSIFIED ROYALTY CORP.

Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

December 31, 2014 and 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	$ 34,510,514	$ 68,999,809
Royalty receivable from Franworks (note 4)	1,062,224	-
Amounts receivable (note 5)	434,564	392,598
Prepaid expenses and other	125,975	149,382
	36,133,277	69,541,789
Deferred income tax asset (note 6)	10,328,049	-
Intangible assets, Franworks Rights (note 7)	108,755,000	-
	$ 155,216,326	$ 69,541,789
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 615,626	$ 407,074
Current tax liabilities	-	57,881
Provisions (note 8)	1,499,040	615,112
Restricted share unit obligations	60,847	-
Current portion of long-term liability (note 9)	79,000	79,000
	2,254,513	1,159,067
Long-term liability (note 9)	519,986	574,057
Long-term bank loan (note 10)	14,804,733	-
Shareholders' equity:		
Share capital (note 11)	115,013,462	97,155,660
Contributed surplus	8,209,663	8,664,249
Retained earnings (accumulated deficit)	14,413,969	(38,011,244)
	137,637,094	67,808,665
	$ 155,216,326	$ 69,541,789

Nature of operations (note 1)
Contingencies (note 8)

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

DIVERSIFIED ROYALTY CORP.

Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

	2014	2013
Royalty income	$ 3,246,991	$ -
Expenses:		
Salaries and benefits	955,540	1,206,006
Share-based compensation	280,461	413,236
General and administration (note 14)	1,035,926	724,975
Professional fees (note 16)	561,056	396,028
Litigation (note 8)	1,377,073	652,179
Proxy contest costs	271,851	-
Acquisition costs	1,522,973	71,815
Operating costs (note 15)	-	466,718
Amortization	-	140,847
Impairment loss	-	36,439
Loss on disposal of assets held for sale and related restructuring costs (note 18)	-	559,674
	6,004,880	4,667,917
Loss from operations	(2,757,889)	(4,667,917)
Finance income (note 17)	759,956	1,000,983
Finance costs (note 17)	(359,041)	(15,028)
Loss before income taxes	(2,356,974)	(3,681,962)
Income tax recovery (note 6)	9,779,212	95,500
Net income (loss) and comprehensive income (loss) for the year	$ 7,422,238	$ (3,586,462)
Basic income (loss) per share (note 13)	$ 0.17	$ (0.09)
Diluted income (loss) per share (note 13)	0.17	(0.09)

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

DIVERSIFIED ROYALTY CORP.

Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

2014	Share capital	Contributed surplus	Retained earnings (accumulated deficit)	Total equity
Balance, January 1, 2014	$ 97,155,660	$ 8,664,249	$ (38,011,244)	$ 67,808,665
Reduction in stated capital (note 11)	(47,155,660)	-	47,155,660	-
Comprehensive income for the year	-	-	7,422,238	7,422,238
Dividends paid for the year	-	-	(2,152,685)	(2,152,685)
Share based compensation, share options (note 12)	-	219,614	-	219,614
Equity issued in private placement and on acquisition of Franworks Rights (note 11)	29,382,030	-	-	29,382,030
Equity issued, bought deal, net of costs and taxes (note 11)	32,937,932	-	-	32,937,932
Share options exercised	2,693,500	(674,200)	-	2,019,300
Balance, December 31, 2014	$115,013,462	$ 8,209,663	$ 14,413,969	$ 137,637,094

2013	Share capital	Contributed surplus	Retained earnings (accumulated deficit)	Total equity
Balance, January 1, 2013	$ 96,969,879	$ 8,414,394	$ (34,424,782)	$ 70,959,491
Comprehensive income (loss) for the year	-	-	(3,586,462)	(3,586,462)
Share-based compensation (note 12)	-	413,236	-	413,236
Share options exercised	185,781	(163,381)	-	22,400
Balance, December 31, 2013	$ 97,155,660	$ 8,664,249	$ (38,011,244)	$ 67,808,665

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

DIVERSIFIED ROYALTY CORP.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

Years ended December 31, 2014 and 2013

	2014	2013
Cash flows provided by (used in):		
Cash flows from (used in) operating activities:		
Net income (loss) for the year	$ 7,422,238	$ (3,586,462)
Adjustments for:		
Deferred taxes	(10,328,049)	-
Amortization	-	140,847
Impairment loss	-	36,439
Loss on disposal of assets held for sale	-	302,174
Unwinding of discount on provision	24,929	(5,824)
Share-based compensation	280,461	413,236
Income tax recovery	-	(95,500)
Changes in non-cash operating items:		
Royalty receivable	(1,062,224)	
Amounts receivable	(41,966)	1,253,305
Prepaid expenses and other	23,407	852,450
Deferred costs	-	40,224
Accounts payable and accrued liabilities	208,552	(1,656,293)
Provisions	883,928	489,138
Current tax liabilities	(57,881)	9,247
Repayment of long-term liability	(79,000)	(79,000)
Net cash used in operating activities	(2,725,605)	(1,886,019)
Cash flows from (used in) investing activities:		
Additions to assets held for sale	-	(23,100)
Purchase of intangible assets, Franworks Rights	(88,072,970)	-
Net proceeds on disposal of assets held for sale	-	7,062,949
Net cash provided by (used in) investing activities	(88,072,970)	7,039,849
Cash flows from (used in) financing activities:		
Payment of finance lease liabilities	-	(32,642)
Payment of dividends	(2,152,685)	-
Proceeds from equity issuance	41,637,932	-
Issuance of long-term debt	14,804,733	-
Proceeds from exercise of share options	2,019,300	22,400
Net cash provided by (used in) financing activities	56,309,280	(10,242)
Net increase (decrease) in cash and cash equivalents	(34,489,295)	5,143,588
Cash and cash equivalents, beginning of year	68,999,809	63,856,221
Cash and cash equivalents, end of year	$ 34,510,514	$ 68,999,809
Transactions not involving cash:		
Shares issued as consideration for the Franworks Rights	$ 20,682,030	$ -

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

Diversified Royalty Corp., ("DIV"), formerly BENEV Capital Inc. and prior to that Bennett Environmental Inc., is a company domiciled in Canada and was incorporated on July 29, 1992 under the Canada Business Corporation Act. The consolidated financial statements of DIV as at and for the year ended December 31, 2014 are composed of DIV and its subsidiaries (together referred to as the "Company").

1. Nature of operations:

The current business of the Company is to acquire top-line royalties from well-managed multi-location businesses and franchisors in North America.

On September 26, 2014, the Company completed the acquisition (the "Franworks Acquisition") of all of the Canadian and U.S. trademarks and other intellectual property rights related to the Original Joe's, Elephant & Castle and State & Main restaurant businesses (the "FW Rights") from a wholly owned subsidiary of Franworks Franchise Corp ("Franworks"). The FW Rights include all registered and unregistered trademarks (including service marks, logos, brand names, trade dress and pending applications for registration) used in connection with such businesses (including trade secrets, patented technology, proprietary databases, domain names, know-how and show-how, recipes and uniform standards, methods, procedures and specifications regarding the establishment and operation of the restaurants operated under the aforementioned brands). As part of the Franworks Acquisition and pursuant to the License and Royalty agreement dated September 26, 2014, DIV licensed the FW Rights to Franworks' wholly-owned subsidiary for a payment of a royalty equal to 6% of the gross sales of the restaurants included in the royalty pool (the "Royalty Pool").

Currently, substantially all of the Company's operating revenues are earned from the receipt of royalties from Franworks and, accordingly, the revenues of the Company and its ability to pay dividends to shareholders are dependent on the ongoing ability of Franworks to generate and pay royalties to the Company.

From June 1, 2013 until acquisition of the Franworks Acquisition on September 26, 2014, the Company was actively pursuing new business opportunities. Prior to June 1, 2013, the Company operated a waste treatment facility.

On May 31, 2013, the Company completed the sale of its Saint Ambroise plant to 8439117 Canada Inc., a company controlled by the plant's manager. The Saint Ambroise plant was the Company's sole operating facility and was responsible for all of the Company's sales and a substantial portion of its expenses for the past four years. As a result of the sale, all of the sales related to this plant and all of its operating costs and substantially all of the amortization and some administrative and business development costs will not be recurring going forward.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. The consolidated financial statements were authorized for issuance by the Board of Directors on March 20, 2015.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for the following items in the statement of financial position:

- Restricted stock unit awards and tenure liability are measured at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 2(d).

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

(d) Use of estimates and judgments:

Significant estimates and judgments made by management in the application of IFRS that have a significant effect on the amounts recognized in these annual consolidated financial statements are as follows:

(*i*) Intangible assets (note 7):

DIV carries the FW Rights at historical cost comprising the amount of consideration paid for the FW Rights. DIV does not amortize the FW Rights as the Company has concluded they have an indefinite life.

DIV tests the FW Rights for impairment annually, which requires that the Company use a valuation technique to determine if impairment exists. This valuation technique is dependent on a number of different variables which requires management to exercise judgment, and as a result, the estimated net cash flows the FW Rights are expected to generate could differ materially from actual results.

2. Basis of preparation (continued):

(d) Use of estimates and judgments (continued):

(*ii*) Fair value of Class B, C and D Partnership units ("Exchangeable Partnership Units" or "Exchangeable 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 (note 7).

(*iii*) Consolidation:

Applying the criteria outlined in IFRS 10, judgment is required in determining whether DIV controls the Partnership. Making this judgment involves taking into consideration the concepts of power over the Partnership, exposure and rights to variable returns, and the ability to use power to direct the relevant activities of the Partnership so as to generate economic returns. Using these criteria, management has determined that DIV ultimately controls the Partnership through its 90% ownership of the GP.

3. Significant accounting policies:

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

(a) Basis of consolidation:

These annual consolidated financial statements include the accounts of DIV, its wholly-owned subsidiary FW Royalties Limited Partnership (the "FW LP"), and its 90% owned subsidiary, FW Royalties GP Ltd. (the "FW GP"). The FW GP is the managing general partner of the FW LP. All significant intercompany transactions and balances have been eliminated on consolidation.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on hand, balances on deposit with banks, and short-term investments with terms of three months or less on the date of acquisition.

(c) Revenue recognition:

Royalty revenue is recognized on the accrual basis when earned. Royalty payments from Franworks to FW LP are 6% of system sales for such period reported by Franworks restaurants in the Royalty Pool plus a make-whole payment, if required by a restaurant closure, based on 6% of lost system sales. System sales for any period and for any Franworks restaurant located in Canada and the United States, as defined in the License and Royalty Agreement, means the gross sales by such Franworks restaurant for such period.

3. Significant accounting policies (continued):

(d) Intangible assets:

Intangible assets consisting of the FW Rights are recorded at their historical cost. The intangible assets are adjusted to record the contribution of additional restaurants to the Royalty Pool as described in note 4. The FW Rights are not amortized as they have an indefinite life.

(e) Distributions to DIV shareholders:

The amount of cash available to be distributed to DIV shareholders is determined with reference to the Company's periodic cash flows from operating activities as reported in the consolidated financial statements less interest and financing fees paid on the term loan.

Distributions to the Company's shareholders are made monthly based upon available cash. Distributions are recorded when declared and are subject to the Company retaining such reasonable working capital reserves as may be considered appropriate by the Company.

(f) 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 comprehensive income attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options and restricted stock units granted to employees.

(g) Borrowings:

Borrowings are initially recognized at fair value net of any financing fees, and subsequently at amortized cost with any difference between the proceeds (net of financing fees) and the redemption value recognized in the comprehensive income over the period of the borrowing using the effective interest rate method. Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for more than twelve months.

3. Significant accounting policies (continued):

(h) Employee benefits:

(*i*) Termination benefits:

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(*ii*) Tenure benefits:

The Company records a liability at the present value of the benefits expected to be paid under the agreement for the tenure agreement with the founder of the Company. A risk-free rate that reflects the risk specific to the liability has been used at the date of measurement.

(*iii*) Share-based payment transactions:

The Company accounts for all stock-based payments to employees and non-employees using the fair value based method of accounting. The Company measures the compensation cost of stock-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 stock-based compensation expense over the relevant vesting period of the stock 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 stock options are exercised, share capital is increased by the sum of the consideration paid and the carrying value of the stock options recorded to contributed surplus.

(*iv*) Restricted stock units:

Restricted stock units granted under the Company's long-term incentive plans are accounted for based on the market value of the underlying shares on the date of grant and vest in equal installments annually over three years or as set out in a restricted stock unit participant's grant agreement. Restricted stock unit awards are accounted for as liability-based awards. Restricted stock units are measured at fair value each reporting date. Restricted stock units are settled either in common shares or cash at the option of the holder based on the number of vested restricted stock units multiplied by the current market price of the common shares when vested.

3. Significant accounting policies (continued):

(i) Provisions:

A provision is recognized if, as a result of a past event, the Company has a legal or constructive present obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(j) Impairment of non-financial assets:

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Long-lived assets that are not amortized, such as the FW Rights, are subject to an annual impairment test.

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amounts 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 "CGU's"). The Company defines a CGU as the FW Rights. The recoverable amount is the higher of an asset's fair value less costs to sell 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 asset's carrying amount exceeds its recoverable amount.

(k) 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 previous year.

3. Significant accounting policies (continued):

(k) Income tax (continued):

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

(l) Financial instruments:

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

At initial recognition, the Company classifies its financial instruments in the following categories depending on the purposes for which the instruments were acquired:

- Loans and receivables: Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, royalties receivable and amounts receivable, are included in this category.

  Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value.

  Subsequently, loans and receivables are measured at amortized cost using the effective interest method.

3. Significant accounting policies (continued):

(l) Financial instruments (continued):

- Financial liabilities at amortized cost: Financial liabilities at amortized cost include accounts payable and accrued liabilities, and the amount drawn on the Company's bank loan. These items are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value or transaction costs incurred. Subsequently, these items are measured at amortized cost using the effective interest rate method.

  Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

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 following table presents the carrying amounts of each category of financial assets and liabilities:

(in thousands)	2014	2013
Assets carried at amortized cost:		
Cash and cash equivalents	$ 34,510,514	$ 68,999,809
Royalty and amounts receivable	1,496,788	392,598
	$ 36,007,302	$ 69,392,407
Liabilities carried at amortized cost:		
Long-term bank loan	$ 15,000,000	$ -
Liabilities carried at fair value:		
Tenure benefits	$ 598,986	$ 653,057

3. Significant accounting policies (continued):

(m) Impairment of financial assets:

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired.

The criteria used to determine if objective evidence of an impairment loss exists include:

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

If such evidence exists, the Company recognizes an impairment loss as follows:

- Financial assets carried at amortized cost: the loss is the difference between the amortized costs of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate.
- Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. The reversal is limited to an amount that does not state the asset at more than what its amortized cost would have been in the absence of impairment.

(n) Accounting standards and amendments adopted by DIV in 2014:

(*i*) Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities:

The amendments to IAS 32 clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

3. Significant accounting policies (continued):

(n) Accounting standards and amendments adopted by DIV (continued):

(*i*) Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities (continued):

The amendments to IAS 32 also clarify when a settlement mechanism provides for net settlement or gross settlement that is equivalent to net settlement. The Company adopted the amendments to IAS 32 in its financial statements for the period beginning January 1, 2014. The adoption of this standard did not have any effect on the financial statements.

(*ii*) Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets:

The IASB has issued amendments to reverse the unintended requirements in IFRS 13, Fair Value Measurement, to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. The adoption of this standard did not have any effect on the financial statements.

(*iii*) IFRIC 21 - Levies:

IFRIC 21 provides an interpretation on IAS 37, Provisions, Contingent Liabilities and Contingent Assets, with respect to the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event. The interpretation clarifies that the obliging event is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this standard did not have any effect on the financial statements.

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

Unless otherwise noted, the following revised standards and amendments are effective for annual periods beginning on or after January 1, 2015 with earlier adoption permitted. The Company has not yet assessed the impact of these standards and amendments or determined whether they will be adopted early.

3. Significant accounting policies (continued):

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

(*i*) On July 24, 2014 the IASB issued IFRS 9, Financial Instruments, and the IASB subsequently published amendments to IFRS 9. IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted.

(*ii*) On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 will replace IAS 18, Revenue. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based, five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

(p) Comparative figures:

Comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

4. Royalty pool:

Annually on April 1, the Royalty Pool is adjusted to include gross sales from new Franworks restaurants that have been open for at least 365 consecutive days prior to April 1, less gross sales from any Franworks restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, Franworks receives the right to indirectly acquire common shares of the Company through the issuance of Class B LP Units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net tax-adjusted royalty revenue added to the Royalty Pool, divided by the yield of the Company's shares, divided by the weighted average share price of the Company's shares. Franworks receives 80% of the estimated Additional Entitlement initially, with the balance received on April 1 of the subsequent year when the actual full year performance of the new restaurants is known with certainty. The Additional Entitlement is automatically exchanged by Franworks into common shares of DIV pursuant to the Exchange Agreement.

(Expressed in Canadian dollars)

4. Royalty pool (continued):

The first contribution of new restaurants to the Royalty Pool will occur on April 1, 2015.

The royalty payment from Franworks to the FW LP is 6% of system sales for such period reported by Franworks in the Royalty Pool plus a make-whole payment, if required by a restaurant closure, based on 6% of lost system sales. System sales for any period and for any Franworks restaurant located in Canada and the United States, as defined in the License and Royalty Agreement, means the gross sales by such Franworks restaurants for such period.

There was one make-whole payment during the current period in the amount of $6,281 (on lost system sales of $104,676) related to the closure of the Chicago Huron Elephant and Castle restaurant, which closed on December 20, 2014.

Royalty income for the year ended December 31, 2014 and 2013 was calculated as follows:

	2014	2013
Restaurants in the Royalty Pool	78	-
Royalty Pool system sales	$ 54,116,522	$ -
Royalty income at 6% of system sales reported above	3,246,991	-

The Franworks Acquisition occurred on September 26, 2014, therefore system sales only reflect the period between September 26, 2014 and December 31, 2014.

5. Amounts receivable:

	2014	2013
Insurance proceeds (note 8(b))	434,236	380,342
Payroll source deductions recoverable and other	328	12,256
	$ 434,564	$ 392,598

6. Deferred income taxes:

	2014	2013
Current income tax recovery	$ -	$ 95,500
Deferred income tax recovery	9,779,212	-
	$ 9,779,212	$ 95,500

(Expressed in Canadian dollars)

6. Deferred income taxes (continued):

Income tax expense as reported differs from the amount that would be computed by applying the combined Federal and Provincial statutory income tax rates to the profit before taxes. The reason for the difference is as follows:

	2014	2013
Loss before taxes	$ (2,356,974)	$ (3,681,962)
Combined Canadian federal and provincial rates	26.00%	26.55%
Expected tax recovery	(612,813)	(977,405)
Increased (reduced) by:		
Permanent and other non-deductible differences	83,708	112,226
Change in unrecognized deferred tax assets	(9,250,107)	-
Change in unrecognized temporary and other differences	-	865,179
Changes in prior year estimates	-	(95,500)
Total tax expense per the statement of operations and comprehensive loss	$ (9,779,212)	$ (95,500)

The tax effect of temporary differences that gives rise to the net deferred tax asset are as follows:

	2014	2013
Deferred tax asset:		
Non-capital losses	$ 9,455,525	$ -
Financing costs	439,068	-
Accounts payable and accrued liabilities	431,395	-
Intangible assets	222,555	-
Investment tax credits	229,395	-
Gross deferred tax asset	10,777,938	-
Deferred tax liability:		
Franworks Rights	(449,889)	-
Net deferred tax asset	$ 10,328,049	$ -

(Expressed in Canadian dollars)

6. Deferred income taxes (continued):

The Company has recognized a deferred tax asset in the amount of $10,328,049, including the tax benefit of non-capital losses carried forward of $9,455,525, as a result of the acquisition of the FW Rights described in note 7. The Company believes it is probable that it will have sufficient taxable profits in the future carry forward period in order to realize the deferred tax asset it has recognized as at December 31, 2014. The Company did not recognize deferred tax assets in respect of $401,300 of net capital loss carry forwards.

As at December 31, 2014, the Company has non-capital loss carry forwards of $36,412,000, which can be carried forward and applied against future taxable income and expires as follows:

2028	$ 1,500
2029	1,500
2030	232,700
2031	8,966,300
2032	1,175,600
2033	21,719,400
2034	4,315,000
	$ 36,412,000

7. Intangible assets:

On September 26, 2014, the Company acquired the FW Rights from a wholly owned subsidiary of Franworks for $108,755,000 of which $88,072,970 was paid in cash and $20,682,030 was paid by the issuance of 8,992,187 common shares of the Company. The Company, through its wholly-owned subsidiary, the FW LP, issued 100,000,000 million of each Class B, Class C, and Class D LP Units. These units will become exchangeable into common shares of the Company through the Exchange Agreement upon satisfaction of certain criteria. The Class B LP Units become exchangeable on the contribution of additional Franworks' restaurants into the Royalty Pool as defined in the License and Royalty Agreement. The Class C LP Units and Class D LP Units become exchangeable on the increase in royalty rate from 6% to 7% and from 7% to 8%, respectively, as defined in the License and Royalty Agreement. Concurrent with the acquisition of the FW Rights, the Company granted Franworks' wholly owned subsidiary a license to use the FW Rights for a period of 99 years. As consideration, Franworks pays the Company a royalty of 6% of system sales reported by Franworks restaurants included in the Royalty Pool (note 4).

(Expressed in Canadian dollars)

8. Provisions and contingencies:

	John Bennett indemnity claim	Liability to insurance underwriter	Other	Total
	(a)	(b)		
Balance, January 1, 2013	$ 25,974	$ -	$ 100,000	$ 125,974
Provisions made during the year	503,670	380,342	-	884,012
Provisions used during the year	(395,587)	-	-	(395,587)
Change in foreign exchange rate	713	-	-	713
Balance, December 31, 2013	134,770	380,342	100,000	615,112
Provisions made during the year	538,307	330,629	-	868,936
Provisions used during the year	(25,370)	-	-	(25,370)
Change in foreign exchange rate	5,855	34,507	-	40,362
Balance, December 31, 2014	$ 653,562	$ 745,478	$ 100,000	$ 1,499,040

The liability to the insurance underwriter shown above is partially offset by $434,236 of insurance proceeds receivable (Note 5).

(a) John Bennett indemnity claim:

John Bennett (“Bennett”), founder and CEO of the Company until early 2004, is charged with conspiracy to defraud and major fraud against the United States between 2001 and mid-2004. The Company and two former vice presidents (both of whom left the Company in 2004) have pleaded guilty to this same conspiracy against the United States.

Bennett was extradited to the United States in November 2014 and is expected to be tried in November 2015. The Company has been ordered by the courts to reimburse Bennett for the reasonable legal costs he has incurred and will incur in connection with his criminal defense.

The Company has accrued for Bennett’s legal costs incurred and reimbursable to him as at December 31, 2014. The cost to the Company in respect of his future legal expenses will be recorded when these expenses are known and the amounts reimbursable to him can be reasonably estimated.

If Bennett is acquitted, the Company’s insurer is responsible for Bennett’s legal costs. If Bennett is found guilty, the Company will be required to reimburse its insurance underwriter for all amounts advanced to Bennett and the Company will be entitled to reimbursement from Bennett. The Company’s ability to obtain reimbursement will depend on its ability to identify and obtain recourse against Bennett’s assets, including, without limitation, the balance of any payments still due to Bennett under the Reward for Tenure Agreement referred to in note 9.

8. Provisions and contingencies (continued):

(b) Liability to insurance underwriter:

The Company expects to receive reimbursement from its insurance underwriter for Bennett's legal expenses incurred in connection with his criminal defense through 2014, as described in section (a) of this note. The amount outstanding as of December 31, 2014 related to this reimbursement was $434,236 (December 31, 2013 - $380,342) This expected reimbursement has been recorded as amounts receivable as described in note 5. Under its funding agreement with the underwriter, as noted above in note 8(a), the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Bennett is found guilty. The Company has cash resources available to settle the estimated liability that may result from this requirement.

(c) Additional claims involving Mr. Bennett:

Bennett has also served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg") and the Company in 2011. The claim alleges that in September 2009, the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and Belzberg directed Second City to purchase the Company's common shares from Bennett. Management believes there is no basis for making this allegation against the Company. Accordingly the Company has made no provision in respect of this matter.

(d) Environmental Protection Agency:

During the first quarter of 2012, the United States Environmental Protection Agency ("EPA") provided the Company with a Notice of Proposed Debarment for a period of five years resulting from documentary and procedural compliance deficiencies in connection with a prior agreement with the EPA. On October 3, 2012, the Company announced the resolution to all outstanding issues with the EPA. Pursuant to the terms of the negotiated Administrative Agreement (the "Agreement") executed by the parties, the Company agreed to undertake certain reporting, certification, and monitoring requirements for a period of two years which expired on October 2, 2014. Management believes that the Company has complied with its obligations under the Agreement and that the Company will not be subject to any further obligations under its terms.

(Expressed in Canadian dollars)

8. Provisions and contingencies (continued):

(e) Claim by U.S. contractor:

During 2008, a prime contractor on a U.S. Federal Government project ("Project") filed a complaint against the Company and many other persons in a U.S. court. Initially, the complaint also named a director and officer, an officer and a senior manager, all of whom are no longer with the Company and some of whom were involved in, and pleaded guilty to, the conspiracy to defraud the United States as describe in note 8(a).

During the first quarter of 2009, the Court stayed all proceedings in this matter pending the conclusion of the Antitrust Division of the United States Department of Justice investigation into the same matter. On November 18, 2014, the stay was lifted.

On February 11, 2015, the U.S. contractor filed its third amended complaint against the Company. The complaint alleges that employees of the Company conspired with an employee of the prime contractor relating to, among other things, the awarding of contracts during the years 2002 through 2004. Of the 22 counts in the complaint, only 6 name the Company as a defendant. The complaint seeks not less than approximately $1.1 million U.S. plus the value of additional gratuities from the Company

Counsel for the Company have brought a motion to dismiss the third amended complaint for failure to plead enough facts to state a claim for relief that is plausible on its face. Success of this motion is not determinable at this time. If successful, the complaint will be dismissed as against the Company. If the Company is not successful on the motion, management intends to defend against this claim vigorously. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

9. Long-term liability:

The long-term liability consists of a tenure agreement between the Company and Mr. Bennett.

Balance, January 1, 2013	$	737,881
Paid during 2013		(79,000)
Adjustment to and unwinding of discount		(5,824)
		653,057
Less current portion		79,000
Balance, December 31, 2013	$	574,057

(Expressed in Canadian dollars)

9. Long-term liability (continued):

Balance January 1, 2014	$	653,057
Paid during 2014		(79,000)
Adjustment to and unwinding of discount		24,929
		598,986
Less current portion		79,000
Balance December 31, 2014	$	519,986

The tenure payments are made on a monthly basis in the amount of $6,583 ($79,000 annually). The tenure agreement expires on December 31, 2022. The carrying value of the liability is the present value of the future payments discounted by an assumed rate of 1.34% based upon the current long-term Canadian bond rate which is reviewed and updated annually as required.

10. Borrowings:

(a) Term bank loan:

On September 26, 2014, concurrent with the Franworks Acquisition, the FW LP borrowed $15,000,000 from a banking syndicate. The facility bears interest at published three-month Canadian dollar Banker's Acceptance Rate (the "BA Rate") plus 4.15% per annum, requires monthly interest only payments and is secured by a general security agreement over the assets of the FW LP, an assignment of the royalty earned under the License and Royalty Agreement and a guarantee from the Company. The maturity date of the facility is September 26, 2017. The facility is subject to certain financial covenants, including a covenant to maintain a funded debt to normalized EBITDA ratio of not more than 1.6:1.0. As at December 31, 2014, the Company and the FW LP are in compliance with all financial covenants associated with this facility.

The term loan is presented net of $195,267 in deferred financing charges at December 31, 2014.

(b) Operating line of credit:

On September 26, 2014, concurrent with the Franworks Acquisition, the FW LP obtained a $2,000,000 demand operating facility from a banking syndicate. This facility bears interest at BA Rate plus 4.50% and is secured by a general security agreement over the assets of the FW LP, an assignment of the royalty earned under the License and Royalty Agreement and a guarantee from the Company. As at December 31, 2014, the entire $2,000,000 remains available for use.

(Expressed in Canadian dollars)

11. Share capital:

At December 31, 2014 the authorized share capital of the Company consists of an unlimited number of common shares.

The issued share capital of the Company is as follows:

	Common shares	Amount
Balance, December 31, 2013	38,778,897	$ 97,155,660
Reduction in stated capital	-	(47,155,660)
Shares issued in private placement (note 20)	5,240,964	8,700,000
Shares issued in connection with acquisition of FW Rights	8,992,187	20,682,030
Shares issued pursuant to options exercised	1,143,125	2,693,500
Equity issued, bought deal, net of costs and taxes	14,375,000	32,937,932
Balance, December 31, 2014	68,530,173	$ 115,013,462

In November 2014, the Company completed a bought deal in which it issued 14,375,000 common shares for gross proceeds of $34,500,000, and incurred total share issuance costs of $1,562,068, net of tax benefits of $548,835.

At the annual meeting of the Company on June 30, 2014, the shareholders approved a resolution to reduce the stated capital to $50,000,000. This approval resulted in a reduction of share capital of $47,155,660 and a corresponding reduction in accumulated deficit.

12. Share-based payment:

During the year ended December 31, 2014, the Company introduced a restricted share unit ("RSU") plan available to both employees and non-employees as part of the Company's long-term incentive plan (the "Plan") where the maximum number of common shares issued under the Plan will be 10% of the issued and outstanding common shares of the Company at the time of grant. The Company's Board of Directors has discretion as to the number of RSUs granted, as well as in determining the vesting period and expiry dates. On each vesting date, the RSU participant may elect in an election notice to settle its vested RSUs in cash, in the Company's shares issued from treasury, or a combination thereof based on the fair market value of the Company's shares as at such date. The holder of an award of RSU has no rights as a shareholder until a common share is issued in settlement of vested restricted stock units. RSUs have accompanying dividend-equivalent rights and, therefore, additional RSUs are issued to reflect dividends declared on the common shares. The Company has issued 250,000 restricted share units to the President and CEO during the year ended December 31, 2014 (year ended December 31, 2013 - nil) at a grant date fair value of $2.35 totaling $587,000.The RSUs vest in their entirety on the third anniversary of the grant date.

(Expressed in Canadian dollars)

12. Share-based payment (continued):

Prior to the acquisition of the FW Rights, the Company had a share option plan where the maximum number of common shares issued under the Plan was 10% of the issued and outstanding common shares of the Company at the time of grant. The Plan provided for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock at the grant date. Stock options were granted to both employees and non-employees. The Company's Board of Directors had discretion as to the number of stock options granted, as well as in determining the vesting period and expiry dates. During the year ended December 31, 2014, the Company issued nil stock options (year ended December 31, 2013 - 1,784,400). During the year ended December 31, 2014 the share option plan was replaced by the Plan described above. Options issued under the share option plan prior to the introduction of the Plan remain outstanding.

The following table summarizes information relating to outstanding and exercisable options at December 31, 2014:

		Options outstanding		Options exercisable	
Exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$ 1.50	154,500	3.50	$ 1.50	154,500	$ 1.50
$ 1.79	129,900	3.62	1.79	129,900	1.79
$ 2.12	421,100	1.67	2.12	421,100	2.12
	705,500		$ 1.92	705,500	$ 1.92

The number and weighed average exercise prices of share options are as follows:

	2014		2013	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding at January 1	$1.89	3,078,525	$2.00	1,554,460
Forfeited during the year	1.99	(1,229,900)	2.12	(167,000)
Exercised during the year	1.77	(1,143,125)	0.24	(93,335)
Granted during the year	-	-	1.73	1,784,400
Outstanding at December 31	$1.92	705,500	$1.89	3,078,525
Exercisable at December 31	$1.92	705,500	$1.81	663,125

The options outstanding at December 31, 2014 have an exercise price in the range of $1.50 to $2.12 (2013 - $1.50 to $2.12) and a weighted contractual life of 2.42 years (2013 – 3.37 years).

(Expressed in Canadian dollars)

12. Share-based payment (continued):

The fair value of each option grant was estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

	2014	2013
Risk-free interest rate	n/a	1.035%
Expected option lives (years)	n/a	3.0
Expected volatility	n/a	38.0%
Dividend yield	n/a	nil%

The total fair value of the options granted in 2013 was $575,060 or $0.32 per option. Other than the 500,000 options issued to the Company's new President and CEO in 2013, which vested immediately, the balance of the options (1,284,400) issued were set to vest once certain performance criteria were met.

During the year ended December 31, 2014, total stock compensation expense was $280,461 (2013 - $413,236).

13. Income (loss) per share:

The reconciliation of the loss for the year and weighted average number of common shares used to calculate basic and diluted earnings per share is as follows:

	2014	2013
Income (loss) for the year	$ 7,422,238	$ (3,586,462)
Net (loss) income per common share:		
Basic	0.17	(0.09)
Diluted	0.17	(0.09)
Weighted average number of shares:		
Basic	44,725,281	38,739,262
Diluted	44,867,709	38,739,262

(Expressed in Canadian dollars)

14. General and administrative expenses:

	2014	2013
Rent, supplies and administrative services	$ 283,814	$ 142,957
Insurance	199,052	404,566
Exchange and filing fees	143,043	111,705
TSX graduation fee	168,525	-
Other	241,492	65,747
	$ 1,035,926	$ 724,975

Rent, supplies and administrative services in 2014 includes $298,667 of expenses related to a services agreement with Maxam (note 20). Rent, supplies and administrative expenses also includes a recovery of $45,015 for capital taxes in 2014. This agreement became effective January 1, 2014 whereby Maxam provided accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Corporation for $30,000 per month. The agreement was amended on October 1, 2014 and now only includes rent and administrative services for $9,000 per month.

15. Operating expenses:

	2014	2013
Wages and benefits	$ -	$ 344,597
Occupancy costs	-	77,393
Goods and services	-	44,728
	$ -	$ 466,718

16. Professional fees:

	2014	2013
Legal	$ 387,150	$ 195,062
Audit and tax	128,750	110,250
Consulting fees	45,156	90,716
	$ 561,056	$ 396,028

(Expressed in Canadian dollars)

17. Finance income and finance costs:

		2014		2013
Interest income on cash and cash equivalents	$	759,956	$	992,760
Adjustment to and unwinding of discount on financial liabilities		-		5,824
Net foreign exchange gain		-		2,399
Finance income	$	759,956	$	1,000,983
Interest expense on financial liabilities		(280,736)		(15,028)
Loan application fee		(25,000)		-
Adjustment to and unwinding of discount on financial liabilities		(24,929)		-
Net foreign exchange loss		(28,376)		-
Finance costs	$	(359,041)	$	(15,028)

18. Loss on disposal of assets held for sale and related restructuring costs:

Completion of Sale of Saint Ambroise Waste Treatment Plant

On May 31, 2013 the Company completed the sale of its Saint Ambroise, Quebec waste treatment plant and related assets and liabilities to 8439117 Canada Inc., a company indirectly controlled by the plant's manager. The preliminary purchase price of $8,000,000 was reduced by $277,264 for working capital assumed by the buyer and increased by $9,328 for soil contracts received prior to closing. These changes resulted in an adjusted price of $7,732,064. The Company may be entitled to additional consideration which could be as high as $2,000,000 or more, contingent on a specific potential new contract being entered into prior to March 7, 2016. As of December 31, 2014 no amount of contingent consideration has been received. The receipt of the potential new contract for any amount of contingent consideration cannot be assured. Disposal costs were $1,035,286 of which $946,379 was paid prior to the end of the fourth quarter of 2013 resulting in net cash proceeds of $7,062,949.

(Expressed in Canadian dollars)

18. Loss on disposal of assets held for sale and related restructuring costs (continued):

The loss on disposal of assets held for sale and related restructuring costs recorded in 2013 are composed of the following items:

		2014	2013
Sale price (including purchase price adjustments)	$	-	7,732,064
Carrying value of property, plant and equipment		-	(7,276,216)
Working capital deficit assumed by the buyer		-	(277,264)
Selling and disposal costs		-	(1,035,286)
Loss on disposal of assets held for sale		-	(302,174)
Restructuring costs related to the sale		-	(257,500)
Loss on disposal of assets held for sale and related restructuring costs	$	-	(559,674)

19. 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.

(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, and arises principally from the Company's amounts due from Franworks. The Company monitors this risk through its regular review of the operating and financing activities of Franworks. The Company's maximum exposure to credit risk is the value of its royalty fee receivable from Franworks. There are no past-due amounts.

19. Financial risk management (continued):

The performance of the Company is directly dependent upon the royalty received from Franworks. The amount of the royalty received from Franworks is dependent on various factors that may affect the casual dining sector of the restaurant industry. The restaurant industry generally, and in particular the casual dining sector, is intensely competitive with respect to price, service, location and food quality. If Franworks and Franworks' franchisees are unable to successfully compete in the casual dining sector, sales may be adversely affected, the amount of royalty reduced and the ability of Franworks to pay the royalty may be impacted.

Credit risk also arises from cash balances on deposit with financial institutions of $34,510,514 at December 31, 2014 (December 31, 2013 - $68,999,809). The Company has placed its cash balances with a Canadian chartered bank of high creditworthiness.

(b) Amounts receivable:

The carrying amount of royalties and amounts receivable represents the maximum credit exposure to credit loss.

Substantially all of the amounts receivable are due from Franworks for the royalties and from the Company's insurance underwriter with respect to the indemnification of Mr. John Bennett for legal costs incurred in connection with the U.S. Department of Justice anti-trust investigation.

The Company evaluates the collectability of amounts receivable and records an allowance for doubtful accounts which reduces receivables to the amount management reasonably believes will be collected.

(Expressed in Canadian dollars)

19. Financial risk management (continued):

(c) Exposure to credit risk:

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Carrying amount	
	2014	2013
Cash and cash equivalents	$ 34,510,514	$ 68,999,809
Royalties and amounts receivable	1,496,788	392,598
	$ 36,007,302	$ 69,392,407

The aging of royalty and amounts receivable at the reporting date was:

	Carrying amount	
	2014	2013
Current	$ 1,496,788	$ 392,598
Over 30 days	-	-
Total amounts receivable	$ 1,496,788	$ 392,598

(Expressed in Canadian dollars)

19. Financial risk management (continued):

(d) 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.

At December 31, 2014, the Company has a cash and cash equivalents balance of $34,510,514 (December 31, 2013 - $68,999,809) and positive working capital of $33,878,764 (December 31, 2013 - $68,382,722). Management believes the Company has sufficient cash resources to meet amounts due.

The Company has the following borrowings outstanding at December 31, 2014 and 2013:

	2014	2013
Long-term bank loan	$ 14,804,733	$ -
Total borrowings	$ 14,804,733	$ -

The long-term bank loan is described in note 10(a).

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

Millions	Carrying amount	Contractual cash flow	2015	2016	2017	2018	Thereafter
Tenure agreement	$ 0.60	$ 0.63	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.31
Accounts payable and accrued liabilities	0.62	0.62	0.62	-	-	-	-
Long-term bank loan	14.80	17.20	0.80	0.80	15.60	-	-
Total contractual obligations	$ 16.02	$ 18.45	$ 1.50	$ 0.88	$ 15.68	$ 0.08	$ 0.31

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

19. Financial risk management (continued):

(e) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates will affect the Company's income or the value of its holding in financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Company does not utilize financial instruments for speculative purposes. As at December 31, 2014 the Company had no foreign exchange contracts.

(f) Currency risk:

The Company is exposed to currency risk as a result of the translation of Franworks' US restaurant dollar sales into Canadian dollars for the purposes of calculating the monthly royalty.

The Company's exposure to foreign currency risk at the reporting date is described below:

	Expressed in US $	
	2014	2013
Cash, restricted cash and cash equivalents	$ 35	$ 4,737
Amounts receivable	374,342	357,598
Provisions	(878,313)	(442,583)
Net exposure in U.S. dollars	$ (503,936)	$ (80,248)

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and income and loss by approximately $58,000 as at December 31, 2014. A similar strengthening (weakening) as at December 31, 2013 would have increased (decreased) equity and comprehensive income by approximately $9,000.

(g) 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 rates. The Company's exposure to interest rate risk mainly arises from the long-term bank loan as it is subject to floating market rates of interest. Based on the balance outstanding on December 31, 2014, a one percent point increase (decrease) in the interest rate would increase (decrease) interest income by approximately $195,000 per annum due to significant short term investments in excess of the bank loan (December 31, 2013 - $690,000 increase (decrease) in interest income due to significant short term investments and no bank loan).

(Expressed in Canadian dollars)

19. Financial risk management (continued):

(h) Capital management:

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

Management defines capital as the Company's total shareholders' equity and long-term bank loan. The Board of Directors does not establish quantitative return on capital criteria for management. The Board of Directors reviews the capital structure on a quarterly basis.

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

The Company's approach to capital management changed during the period pursuant to the closing of the Franworks Acquisition. The Company used up the majority of its cash balances on the Franworks Acquisition. However, subsequent to the Franworks transaction in the fourth quarter, the Company completed a bought deal equity offering, raising $32,937,932 net of costs and taxes, leaving the Company with a substantial cash balance as at December 31, 2014 of $34,510,514.

20. Related parties:

Transactions with key management personnel:

Key management personnel of the Company includes all individuals who occupied the following positions during the reporting periods:

- Members of the Board of Directors.
- President and Chief Executive Officer ("CEO").
- Chief Financial Officer ("CFO").

The table below provides a breakdown of the compensation of key management personnel benefits included in net income:

	2014	2013
Short-term benefits	$ 316,200	$ 898,598
Share-based payments	280,461	413,236
Short-term benefits	$ 596,661	$ 1,311,834

20. Related parties (continued):

As described in notes 1 and 18, on May 31, 2013 the Company completed the sale of its Saint Ambroise facility to 8439117 Canada Inc., a company controlled by the plant's manager.

During 2014 the Company paid fees of $847,285 (2013 – $21,863) to a legal firm where a current director of the Company is a partner.

The Company's President and CEO and one of the Company's directors are co-founders and managing partners of Maxam Capital Corp ("Maxam"). The Company entered into a services agreement (the "Services Agreement") with Maxam whereby Maxam provided, effective as of January 1, 2014, accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Company. Pursuant to the Services Agreement, the Corporation paid Maxam a monthly service fee of approximately $30,000 plus reasonable out of pocket expenses. Effective September 29, 2014, this Services Agreement was terminated, and a new services agreement with Maxam was entered into whereby the monthly service fee was reduced to approximately $9,000 per month and includes only rent and administrative services.

On September 29, 2014, the Company's then CFO (a Vice President at Maxam Capital) entered into a consulting services agreement with the Company, pursuant to which, his holding company provided his services as interim CFO to the Company for a period of three months, in return for a monthly fee of $12,500. This agreement was extended to January 31, 2015 and then terminated.

On September 29, 2014, the Company agreed to a services agreement with the Company's CEO's holding company (the "CEO Agreement"), pursuant to which, his holding company will provide his services as CEO to the Company in return for an annual service fee of $200,000 per annum until September 2015, and $287,500 per annum for the first two years thereafter, subject to adjustments. In addition, the CEO Agreement provides for payment of an incentive bonus based upon increases in the Company's aggregate cash dividends, the grant of 250,000 RSU's (note 12), and a lump sum signing bonus of $125,000.

During 2013 and in conjunction with the Company's CEO joining the Company, a fund to be created by Maxam was granted a right to invest in the Company for an amount up to the lesser of (*i*) 10% of the total issued and outstanding common equity of the Company (or its successor) immediately following one or more transformational transactions, or (*ii*) $10 million. At the time this right was granted to Maxam, Maxam and the Company were not related. This right was exercised by Maxam Opportunities Fund II FW LP on September 26, 2014, whereby it acquired 5,240,964 shares in a private placement for proceeds to the Company of $8,700,000.

20. Related parties (continued):

At December 31, 2014, Franworks is considered to be a related party of the Company by virtue of common directors of Franworks and the Company. The following is a summary of the balances due to and due from Franworks:

	2014	2013
Royalty fee receivable from Franworks	$ 1,062,224	$ -

The above amounts were received from Franworks when due, subsequent to the end of the above periods.

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.