Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2015 and 2014

KPMG LLP
Chartered Professional Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

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, 2015 and December 31, 2014, the consolidated statements of net income and comprehensive income, 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 audits. We conducted our audits 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 in our audits 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, 2015 and December 31, 2014, 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 Professional Accountants
March 29, 2016
Vancouver, Canada

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

As at December 31, 2015 and 2014

	Note		2015		2014
Assets					
Current assets:					
Cash and cash equivalents		$	8,889	$	34,511
Royalties and management fees receivable	4		2,280		1,062
Amounts receivable	5		29		435
Prepaid expenses and other			75		126
			11,273		36,134
Deferred income tax asset	6		9,115		10,328
Intangible assets	7		284,147		108,755
		$	304,535	$	155,217
Liabilities and Shareholders' Equity					
Current liabilities:					
Accounts payable and accrued liabilities		$	914	$	616
Provisions	8		6,419		1,499
Restricted share unit obligations			-		61
Current portion of long-term liability	9		-		79
			7,333		2,255
Long-term liability	9		-		520
Long-term bank loans, net of deferred financing charges	10		55,388		14,805
Interest rate swap liabilities	11		297		-
Shareholders' equity:					
Share capital	12		230,357		115,013
Contributed surplus			8,542		8,210
Retained earnings			2,618		14,414
			241,517		137,637
		$	304,535	$	155,217

Nature of operations (note 1)
Contingencies (note 8)
Subsequent events (note 21)

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)

Years ended December 31, 2015 and 2014

	Note		2015		2014
Royalty income		$	19,463	$	3,247
Management fees			127		-
			19,590		3,247
Expenses					
Salaries and benefits			860		1,001
Share-based compensation	13		290		280
General and administration	15		559		858
Professional fees	16		343		1,393
Litigation	8		6,409		1,377
Royalty transition credit	4		884		-
Gain on extinguishment of long-term liability	9		(539)		-
Proxy contest costs			-		272
Acquisition costs			-		824
			8,806		6,005
Income (loss) from operations			10,784		(2,758)
Finance income			188		760
Interest expense on credit facilities			(1,356)		(217)
Other finance costs	17		(426)		(142)
Fair value adjustment on interest rate swaps	11		(297)		-
Income (loss) before income taxes			8,893		(2,357)
Income tax expense (recovery)	6		2,921		(9,779)
Net income and comprehensive income		$	5,972	$	7,422
Basic weighted average number of shares outstanding			85,554,465		44,725,281
Diluted weighted average number of shares outstanding			85,764,453		44,867,709
Basic income per share	14	$	0.07	$	0.17
Diluted income per share	14	$	0.07	$	0.17

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)

Years ended December 31, 2015 and 2014

	Note		Share capital		Contributed surplus		Retained earnings		Total equity
Balance, January 1, 2015		$	115,013	$	8,210	$	14,414	$	137,637
Common shares issued on public offering, net of issuance costs and taxes			110,144		-		-		110,144
Common shares issued in connection with April 1, 2015 new store roll-in	7		4,938		-		-		4,938
Share options exercised	12		61		(19)		-		42
Common shares issued on DRIP			201		-		-		201
Share-based compensation	13		-		351		-		351
Dividends declared			-		-		(17,698)		(17,698)
Dividends payable to OJFG	7		-		-		(70)		(70)
Comprehensive income			-		-		5,972		5,972
Balance, December 31, 2015		$	230,357	$	8,542	$	2,618	$	241,517

	Note		Share capital		Contributed surplus		Retained earnings (accumulated deficit)		Total equity
Balance, January 1, 2014		$	97,156	$	8,664	$	(38,011)	$	67,809
Common shares issued in private placement and acquisition of FW Rights			29,382		-		-		29,382
Common shares issued on public offering, net of issuance costs and taxes			32,938		-		-		32,938
Reduction in stated capital	12		(47,156)		-		47,156		-
Share options exercised	12		2,693		(674)		-		2,019
Share-based compensation	13		-		220		-		220
Dividends declared			-		-		(2,153)		(2,153)
Comprehensive income			-		-		7,422		7,422
Balance, December 31, 2014		$	115,013	$	8,210	$	14,414	$	137,637

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)

Years ended December 31, 2015 and 2014

	2015	2014
Cash flows from (used in) operating activities:		
Net income for the year	$ 5,972	$ 7,422
Adjustments for:		
Dividends accrued but not paid	(70)	-
Unwinding of discount on financial liabilities	19	8
Amortization of deferred financing charges	127	17
Share-based compensation	290	280
Fair value adjustments on interest rate swaps	297	-
Gain on extinguishment of long-term liability	(539)	-
Changes in non-cash operating items:		
Royalties and management fees receivable	(1,218)	(1,062)
Amounts receivable	406	(42)
Prepaid expenses and other	51	23
Accounts payable and accrued liabilities	298	209
Provisions	4,920	884
Deferred income taxes	2,921	(10,328)
Current tax liabilities	-	(57)
Repayment of long-term liability	(79)	(79)
Net cash provided by (used in) operating activities	13,395	(2,725)
Cash flows provided by financing activities:		
Proceeds from issuance of debt	40,900	15,000
Deferred financing fees	(444)	(195)
Proceeds from issuance of equity, net of issuance costs	108,436	41,638
Proceeds from exercise of share options	42	2,019
Payment of dividends	(17,497)	(2,153)
Net cash provided by financing activities	131,437	56,309
Cash flows used in investing activities:		
Purchase of intangible assets	(170,454)	(88,073)
Net cash used in investing activities	(170,454)	(88,073)
Net decrease in cash and cash equivalents	(25,622)	(34,489)
Cash and cash equivalents, beginning of year	34,511	69,000
Cash and cash equivalents, end of year	$ 8,889	$ 34,511
Non-cash transactions:		
Increase in intangible assets from Royalty Pool new store roll-in	$ 4,938	$ -
Shares issued as consideration for the Franworks Rights	$ -	$ 20,682

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 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, 2015 are composed of DIV and its subsidiaries (together referred to as the "Company"). The Company's common shares are listed on the Toronto Stock Exchange ("TSX") and traded under the symbol "DIV". The registered office of the Company is located at 902-510 Burrard Street, Vancouver, BC, V6C 3A8.

1. Nature of operations:

The current business of DIV is to acquire royalties from well-managed multi-location businesses in North America.

On September 26, 2014, the Company completed the acquisition (the "Franworks Acquisition"), through FW Royalties Limited Partnership ("FW LP") (an entity controlled by the Company), 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 Company granted Franworks the licence to use the FW Rights for a term ending on December 31, 2113 in exchange for a royalty payment initially equal to 6.0% of system sales of the Franworks restaurants in the royalty pool.

On June 19, 2015, the Company completed its second royalty acquisition, whereby it indirectly acquired (the "Sutton Acquisition"), through SGRS Royalties Limited Partnership ("SGRS LP") (an entity controlled by the Company), all of the Canadian and U.S. trademarks and certain other intellectual property rights utilized by Sutton Group Realty Services Ltd. ("Sutton") in its residential real estate franchise business (the "Sutton Rights"). The Company granted Sutton the licence to use the Sutton Rights for a term ending on December 31, 2114 in exchange for a royalty payment initially equal to $56.25 per agent per month for the number of agents included in the royalty pool.

On August 19, 2015, the Company completed its third royalty acquisition, whereby it indirectly acquired (the "Mr. Lube Acquisition") through ML Royalties Limited Partnership ("ML LP") (an entity controlled by the Company), the trademarks and certain other intellectual property rights (the "ML Rights") from Mr. Lube Canada Limited Partnership ("Mr. Lube"). The Company granted Mr. Lube the licence to use the ML Rights for a term ending on August 19, 2114 in exchange for a royalty payment initially equal to 6.95% of system sales of Mr. Lube locations in the royalty pool.

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

From June 1, 2013 until the completion 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 soil remediation facility.

2. Basis of preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). The consolidated financial statements were authorized and approved for issue by the Company's Board of Directors on March 29, 2016.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for the tenure benefits and interest rate swaps, which are measured at fair value.

(c) Functional and presentation currency:

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

2. Basis of preparation (continued):

(d) 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.

(i) Critical judgments:

- Consolidation:

  In applying the criteria outlined in IFRS 10, *Consolidated Financial Statements,* judgment is required in determining whether DIV controls FW LP, SGRS LP, and ML 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 these entities through its majority ownership of the respective general partners.

- Capitalization of acquisition costs:

  At the time of acquisition, the Company considers whether or not it represents a business combination or an asset acquisition. This requires the Company to make certain judgments as to whether or not the assets acquired include the inputs, processes and outputs necessary to constitute a business. Under a business combination, acquisition-related costs are recognized as an expense. When the acquisition does not represent a business combination, it is accounted as an asset acquisition, where the costs are capitalized to the respective asset.

(ii) Key estimates and assumptions:

- Intangible assets:

  The Company carries the intangible assets at cost comprising the amount of consideration paid for the FW Rights, Sutton Rights, and ML Rights. The intangible assets are not amortized as they have an indefinite life.

  The Company tests intangible assets 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 cash flows the FW Rights, Sutton Rights and ML Rights are expected to generate could differ materially from actual results.

- Fair value of exchangeable partnership units in FW LP, SGRS LP, and ML 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 (note 7).

- Deferred taxes:

  Deferred tax assets and liabilities are due to temporary differences between the carrying amount for accounting purposes and the tax basis of certain assets and liabilities, as well as undeducted tax losses. In recognizing a deferred tax asset, management makes estimates related to expectations of future taxable income, and the expected timing of reversals of existing temporary differences.

3. Significant accounting policies:

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

(a) Basis of consolidation:

These consolidated financial statements include the accounts of DIV, FW LP, SGRS LP, ML LP, and the respective general partners. 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 Canadian chartered banks, and short-term investments with terms of three months or less on the date of acquisition.

(c) Revenue recognition:

Royalty income and management fee revenue are recognized on an accrual basis as earned.

(d) Intangible assets:

Intangible assets consist of the FW Rights, Sutton Rights, and ML Rights. The intangible assets are recorded at cost, which includes directly attributable acquisition costs, and are adjusted to record the additions to the respective royalty pools as described in note 7. The intangible assets are not amortized as they have an indefinite life.

(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 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 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 had been recognized.

(f) Distributions to DIV shareholders:

Distributions to the Company’s shareholders are made monthly based upon available cash at the discretion of the Board of Directors. 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.

3. Significant accounting policies (continued):

(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 and restricted stock units.

(h) Employee benefits:

(i) Tenure benefits:

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

(ii) 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.

(iii) 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 market price 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. The cost of cash-settled RSUs is based on the fair value of the underlying shares at the grant date, and is re-measured at the end of each reporting period until the liability is settled. The fair value of the cash-settled RSUs is recognized as compensation expense and a liability over the vesting period.

As at December 31, 2015, all RSUs outstanding will be settled in common shares.

(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 reviewed at the end of each reporting period and adjusted or reversed to reflect management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are reduced by actual expenditures for which the provision was originally recognized. Where discounting has been used, the carrying amount of the provision is accreted during the period to reflect the passage of time.

During the year ended December 31, 2015, no discounting was used for provisions.

3. Significant accounting policies (continued):

(j) Income tax:

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

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

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

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

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

(k) Financial instruments:

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

At initial recognition, all financial assets and liabilities are recorded at fair value, net of attributable transaction costs, except for financial assets and liabilities classified as fair value through profit or loss. 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 receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Cash and cash equivalents, royalties and management fees receivable and amounts receivable are included in this category.

  Loans and receivables are subsequently measured at amortized cost using the effective interest method.

- 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 loans. These items are subsequently 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.

- Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is generally classified in this category if it is acquired for the purposes of selling or repurchasing in the near term. Derivative financial instruments are also included in this category unless they are designated as hedges. Interest rate swaps and the long-term liability are included in this category, and are measured at fair value with changes in fair value recognized in profit or loss.

3. Significant accounting policies (continued):

(l) 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's 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.

(m) Comparative information:

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

(n) New standards applicable in future periods:

IFRS 9, *Financial Instruments* ("IFRS 9"), replaces the guidance in IAS 39, *Financial Instruments: Recognition and Measurement* on the classification and measurement of financial assets and liabilities. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their cash flows. In addition, under IFRS 9 for financial liabilities measured at fair value, changes in fair value attributable to changes in credit risk will be recognized in other comprehensive income, with the remainder of the 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 mandatory effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 9 on its consolidated financial statements.

In December 2014, the International Accounting Standards Board ("IASB") issued amendments to IAS 1, *Presentation of Financial Statements* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company does not expect the amendments to have a material impact on its consolidated financial statements.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which 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 mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of IFRS 15 on its financial statements.

3. Significant accounting policies (continued):

(n) New standards applicable in future periods (continued):

In January 2016, the IASB issued IFRS 16, *Leases*. This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of a low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The mandatory effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. The Company is currently evaluating the impact of IFRS 16 on its consolidated financial statements.

4. Royalty pool:

		2015		2014
Royalties and management fees receivable:				
Franworks	$	1,122	$	1,062
Sutton		315		-
Mr. Lube		843		-
	$	2,280	$	1,062

(a) Franworks:

Pursuant to the terms of the licence and royalty agreement dated September 26, 2014 (the “Franworks Licence and Royalty Agreement”), the royalty payment from Franworks to FW LP, is 6.0% of system sales (the “Franworks Royalty Rate”) for such period reported by Franworks for the restaurants in the Franworks royalty pool (the “Franworks Royalty Pool”) plus a make-whole payment, if required by a restaurant closure, based on 6.0% of lost system sales. System sales for any period and for any Franworks restaurant located in Canada and the United States, means the gross sales by such Franworks restaurant for such period. Franworks will also, subject to meeting certain performance criteria, be provided opportunities to increase the Franworks Royalty Rate in two, 1.0% increments (note 7(a)).

Royalty income from Franworks for the years ended December 31, 2015 and 2014 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants		2015		2014
Restaurants in the Franworks Royalty Pool		82		78
Franworks Royalty Pool system sales	$	210,130	$	54,117
Royalty income		12,795		3,247

During the year ended December 31, 2015, royalty income includes make-whole payments totaling $0.2 million (on lost system sales of $3.1 million) related to renovations. The year ended December 31, 2014 included royalty income from Franworks from September 26, 2014, the date of the Franworks Acquisition, to December 31, 2014.

(b) 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 (the “Sutton Royalty Pool”) by an agreed royalty fee (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 7(b)).

4. Royalty pool (continued):

(b) Sutton (continued):

Royalty income from Sutton for the year ended December 31, 2015 was calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents and the Sutton Royalty Rate		2015		2014
Agents in the Sutton Royalty Pool		5,185		n / a
Sutton Royalty Rate (per agent per month)	$	56.25	$	-
Royalty income		1,867		-

The year ended December 31, 2015 includes royalty income from Sutton from June 19, 2015 (the date of the Sutton Acquisition) to December 31, 2015.

(c) Mr. Lube:

Pursuant to the terms of the licence and royalty agreement dated August 19, 2015 (the “Mr. Lube Licence and Royalty Agreement”), the royalty paid by Mr. Lube to ML LP is calculated by multiplying the system sales of locations within the Mr. Lube royalty pool (the “Mr. Lube Royalty Pool”) by an agreed royalty fee (the “Mr. Lube Royalty Rate”, initially set at 6.95%). In addition, ML LP is entitled to receive a make-whole payment in the event that a Mr. Lube location in the ML Royalty Pool is permanently closed during the royalty payment period. The make-whole payment is based on the lost system sales multiplied by the Mr. Lube Royalty Rate. Mr. Lube will also, subject to meeting certain performance criteria, be provided opportunities to increase the Mr. Lube Royalty Rate in four, 0.5% increments (note 7(c)).

Royalty income from Mr. Lube for the year ended December 31, 2015 was calculated as follows:

Expressed in thousands of Canadian dollars, except for number of locations		2015		2014
Locations in the Mr. Lube Royalty Pool		117		n / a
Mr. Lube Royalty Pool system sales	$	69,082	$	-
Royalty income		4,801		-

The monthly royalty payments received from Mr. Lube related to the periods ending on or before December 31, 2015 are subject to a royalty transition credit of $0.2 million per month, pro-rated for partial payment periods. The royalty transition credit for the year ended December 31, 2015 was $0.9 million.

The year ended December 31, 2015 includes royalty income from Mr. Lube from August 19, 2015 (the date of the Mr. Lube Acquisition) to December 31, 2015.

(Expressed in thousands of Canadian dollars)

5. Amounts receivable:

		2015		2014
Insurance proceeds (note 8(b))	$	-	$	435
GST receivable		24		-
Interest receivable		5		-
	$	29	$	435

6. Deferred income taxes:

		2015		2014
Deferred income tax expense (recovery)	$	2,921	$	(9,779)
	$	2,921	$	(9,779)

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:

		2015		2014
Income (loss) before income taxes	$	8,893	$	(2,357)
Combined Canadian federal and provincial rates		26%		26%
Expected tax recovery		2,312		(613)
Increased (decreased) by:				
Permanent and other non-deductible differences		76		84
Change in unrecognized deferred tax assets		-		(9,250)
Change in prior year estimates		533		-
	$	2,921	$	9,779

(Expressed in thousands of Canadian dollars)

6. Deferred income taxes (continued):

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

	2015	2014
Deferred tax asset		
Non-capital losses	$ 7,898	$ 9,456
Financing and share issuance costs	1,705	439
Provisions and long-term liability	1,643	431
Intangible assets	318	223
Investment tax credits	223	229
Other	84	-
Gross deferred tax asset	11,871	10,778
Deferred tax liability:		
Intangible assets	(2,756)	(450)
Net deferred tax asset	$ 9,115	$ 10,328

The Company's net deferred tax asset of $9.1 million (2014 - $10.3 million) is comprised of a gross deferred tax asset of $11.8 million (2014 - $10.8 million) less a deferred tax liability of $2.8 million (2014 - $0.5 million). This deferred tax asset largely relates to the Company's non-capital losses of approximately $30.4 million (2014 - $36.4 million) (note 21). Given the anticipated monthly royalty income to be received from Franworks, Sutton, and Mr. Lube, the Company expects to be able to utilize these non-capital losses during the carry forward period, and as such, recognized this deferred tax asset on the balance sheet as at December 31, 2015 and December 31, 2014. The deferred tax liability is largely associated with the temporary differences on the Company's eligible capital expenditures related to the FW Rights, Sutton Rights, and ML Rights, which has a tax cost base of approximately $183.3 million (2014 - $64.3 million).

As at December 31, 2015, the Company has non-capital loss carry forwards of $30.4 million, which can be carried forward and applied against future taxable income and expires as follows:

2031	$ 4,366
2032	1,175
2033	21,719
2034	3,119
	$ 30,379

(Expressed in thousands of Canadian dollars)

7. Intangible assets:

		2015		2014
Balance, beginning of year	$	108,755	$	-
Acquisition of FW Rights		-		108,755
Roll-in of new Franworks restaurants		4,938		-
Acquisition of Sutton Rights		31,229		-
Acquisition of ML Rights		139,225		-
Balance, end of year	$	284,147	$	108,755

(a) FW Rights:

On September 26, 2014, the Company acquired the FW Rights from Franworks' wholly owned subsidiary, Original Joe's Franchise Group Inc. ("OJFG"), for $108.8 million, of which $88.1 million was paid in cash (satisfied by $64.4 in cash, the issuance of $15.0 million in debt (note 10), and receipt of $8.7 million in a private placement of common shares) and $20.7 million was paid by the issuance of 8,992,187 common shares of the Company.

In connection with the Franworks Acquisition, FW LP issued 100,000,000 Class B, Class C, and Class D LP units to OJFG. These units will become exchangeable into common shares of the Company through the exchange agreement dated September 26, 2014 among OJFG, the Company and FW Royalties GP Inc. (the "Franworks Exchange Agreement") upon the satisfaction of certain performance criteria. The Class B LP units become exchangeable on the contribution of additional Franworks' restaurants into the Franworks Royalty Pool. The Class C and Class D LP units become exchangeable on the increase in the Franworks Royalty Rate from 6.0% to 7.0% and from 7.0% to 8.0%, respectively, in accordance with the partnership agreement dated September 26, 2014 among OJFG, the Company and FW Royalties GP Inc.

Immediately following the closing of the Franworks Acquisition, the Company, through FW LP, licensed the FW Rights to OJFG for a period of 99 years in exchange for a royalty payment equal to the system sales of the Franworks restaurants in the Franworks Royalty Pool multiplied by the Franworks Royalty Rate (note 4(a)).

Annually on April 1, the Franworks Royalty Pool is adjusted, subject to meeting certain performance criteria, 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 Franworks Royalty Pool, Franworks receives the right to indirectly acquire common shares of the Company through the exchange of Class B LP Units of FW LP (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net tax-adjusted royalty revenue added to the Franworks 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 April 1. 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 Franworks Exchange Agreement.

7. Intangible assets (continued):

(a) FW Rights (continued):

The first contribution of new restaurants to the Franworks Royalty Pool occurred on April 1, 2015. The Company and Franworks announced that effective April 1, 2015, the Franworks Royalty Pool had been adjusted to include the royalties from five new restaurants opened across Canada and to remove one restaurant in the U.S. that was permanently closed ("2015 Franworks Royalty Pool Amendment"). With the adjustment for these five openings and one closure, the Franworks Royalty Pool now includes 82 restaurants.

The initial consideration for the estimated net additional royalty revenue is approximately $4.9 million representing 80% of the total estimated consideration of $6.2 million payable to Franworks for such additional royalty revenue. The consideration is paid in the form of DIV shares on the basis of the 20-day volume weighted average closing price of DIV's shares for the period ending March 25, 2015. Based on a weighted average closing price of $2.69 per share, the initial consideration payable for the net additional royalty revenue was paid to Franworks in the form of 1,835,728 DIV shares which were issued on April 1, 2015 to OJFG. As a result of these new store roll-ins, intangible assets and share capital for the year ended December 31, 2015 increased by $4.9 million.

Based on the audited gross sales in 2015 of the net new stores added to the Franworks Royalty Pool on April 1, 2015, the total consideration for the net additional royalty revenue is $6.7 million. After taking into account the 1,835,728 DIV shares previously issued to OJFG on April 1, 2015, the Company will issue 637,051 DIV shares to OJFG. The Company has accrued $0.1 million of dividends payable related to these DIV shares. The issuance of the 637,051 DIV shares has been extended from April 1, 2016 to April 3, 2017 (note 21).

(b) Sutton Rights:

On June 19, 2015, the Company acquired, through SGRS LP, the Sutton Rights for a purchase price of $30.6 million, which was paid through $30.6 million in cash (satisfied by $24.3 million in cash and the issuance of $6.3 million in debt (note 10)). Additionally, $0.6 million in costs incurred for the acquisition of the Sutton Rights were capitalized as part of the purchase. Immediately following the closing of the Sutton Acquisition, the Company, through SGRS LP, licensed the Sutton 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 4(b)).

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.

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.

7. Intangible assets (continued):

(c) ML Rights:

On August 19, 2015, the Company acquired, through ML LP, the ML Rights for a purchase price of $138.9 million, which was paid in cash. Additionally, $0.4 million in costs incurred for the acquisition of the ML Rights were capitalized as part of the purchase. The cash payment was financed through the issuance of $34.6 million in debt (note 10) and partial proceeds from the issuance of equity in August 2015 (note 12). Immediately following the acquisition of the ML Rights, the Company, through ML LP, licensed the ML Rights back to Mr. Lube for 99 years in exchange for a royalty payment equal to the system sales of the Mr. Lube locations in the Mr. Lube Royalty Pool multiplied by the Mr. Lube Royalty Rate (note 4(c)).

Upon closing the Mr. Lube Acquisition, ML LP issued 100,000,000 Class B, Class C, Class D, Class E, and Class F units to Mr. Lube. These units will become exchangeable into common shares of the Company through the exchange agreement dated August 19, 2015 among Mr. Lube, ML Royalties GP Inc. and the Company (the “Mr. Lube Exchange Agreement”) upon the satisfaction of certain performance criteria. The Class B LP units of ML LP become exchangeable into common shares of the Company upon adding Mr. Lube locations to the ML Royalty Pool. The Class C, Class D, Class E, and Class F LP units become exchangeable into common shares of the Company on increases in the ML Royalty Rate of 0.5% increments four times during the life of the royalty, in accordance with the partnership agreement dated August 19, 2015 among Mr. Lube, the Company, and ML Royalties GP Inc.

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

(d) Impairment assessment:

Annually, on December 31st, the Company tests the carrying value of its intangible assets for impairment. Impairment exists if the present value of the net cash flows is greater than the carrying value of the CGU. 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 most recent annual forecasts prepared by management and extrapolated over five years, with a terminal capitalization rate applied on the expected cash flows thereafter to reflect the indefinite life of the intangible assets. The most recent annual forecast reflects a modest decline in revenue to reflect an overall softness in the economy. Subsequent to 2016, revenue is projected to grow at rates ranging from 2.0% to 4.5%. These projected cash flows are discounted at pre-tax rates, based on the risks associated with the assets, which range from 11.9% to 13.5%.

The Company also considers other reasonably possible scenarios where forecasted revenue is less than budget, along with other reasonably possible higher discount rates to determine whether the intangible assets would be impaired under those scenarios. As the carrying values of the intangible assets at December 31, 2015 approximate the estimated recoverable amounts, a subsequent change in any key assumption utilized in the estimate of future cash flows may result in an impairment loss. As at December 31, 2015, the Company has determined that no impairment exists.

(Expressed in thousands of Canadian dollars)

8. Provisions and contingencies:

		John Bennett Indemnity Claim		Liability to Insurance Underwriter		Other		Total
		(a)		(b)				
Balance, January 1, 2014	$	135	$	380	$	100	$	615
Provisions made during the period		538		331		-		869
Provisions used during the period		(25)		-		-		(25)
Change in foreign exchange rate		6		34		-		40
Balance, December 31, 2014		654		745		100		1,499
Provisions made during the period		5,228		2,734		-		7,962
Provisions used during the period		(3,351)		-		-		(3,351)
Change in foreign exchange rate		23		286		-		309
Balance, December 31, 2015	$	2,554	$	3,765	$	100	$	6,419

(a) John Bennett indemnity claim:

In 2009, John Bennett, CEO of the Company until early 2004, was charged with conspiracy to commit fraud and major fraud against the United States between 2001 and mid-2004, and was extradited to New Jersey in November 2014. The Company and two former vice presidents (both of whom left the Company in 2004) pled guilty to this same conspiracy against the United States.

In 2010, the Company was ordered by the courts to reimburse Mr. Bennett for reasonable legal costs he would incur in connection with his criminal defense, subject to a reasonableness test as well as the obligation to repay the amounts advanced to him if it was ultimately determined that he was not entitled to indemnification because he did not act honestly and in good faith with a view to the best interests of the Company.

In 2013, the Company brought a motion to challenge the reasonableness of some of Mr. Bennett's legal costs and was successful in part. In 2013, the Company also brought a motion to set aside the order but was unsuccessful.

In November 2014, Mr. Bennett was extradited to the United States.

In September 2015, the Company brought a motion to challenge the reasonableness of Mr. Bennett's legal costs incurred between 2013 and the date of the motion. In January 2016, the Ontario court ruled on the motion and decided that the majority of all the legal expenses that the Company was challenging were reasonable, except for a nominal amount of $0.05 million.

Mr. Bennett was tried between February 22, 2016 and March 16, 2016. On March 16, 2016, the jury returned a guilty verdict on both counts (conspiracy to commit fraud and major fraud against the United States).

Upon learning of the guilty verdict, the Company brought an urgent motion to the have order set aside. On March 17, 2016, the court granted a temporary stay of the order pending the hearing of the Company's motion. The hearing is scheduled to be held on April 4, 2016.

In light of the verdict, the Company expects that its insurance underwriter will request a reimbursement for all amounts advanced to Mr. Bennett, and the Company will be entitled to reimbursement from Mr. Bennett. The Company's ability to obtain reimbursement will depend on its ability to identify and obtain recourse against Mr. Bennett's assets, including, without limitation, the balance of any payments still due to Mr. Bennett under the tenure agreement (note 9).

Based on the guilty verdict, the Company has accrued all legal costs incurred and reimbursable to him as at December 31, 2015, as well as invoices received in 2016 that were required to be paid before March 17, 2016. The Company has received invoices of US$1.2 million that were originally required to be paid subsequent to March 17, 2016, and is aware that additional costs to the completion of the trial have been incurred, but not yet invoiced. The Company did not accrue for these additional costs in its financial statements as it does not believe it is required to pay for such costs in light of the guilty verdict.

8. Provisions and contingencies (continued):

(b) Liability to insurance underwriter:

The Company has received reimbursements from its insurance underwriter for Mr. Bennett's legal costs incurred in connection with his criminal defense, and as described in section (a) of this note. In light of the guilty verdict, the Company expects that its insurance underwriter will request a reimbursement for all legal costs advanced to Mr. Bennett that were previously recovered from the insurance underwriter. As at December 31, 2015, the Company has recovered $3.8 million (or US$2.7 million) from the insurance underwriter.

Subsequent to December 31, 2015, the Company received an additional $0.8 million (or US$0.6 million) from the insurance underwriter (note 21).

The Company has cash resources available to settle the estimated liability that may result from this requirement, which it has accrued in its financial statements.

(c) Additional claims involving John 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) Claim by U.S. contractor:

In 2008, a prime contractor on a U.S. Federal Government project filed a complaint against the Company and many other persons in a U.S. court. This relates to the same matters which are the subject of the John Bennett litigation. 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 described in note 8(a).

In 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 21 counts in the complaint, only six 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 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. This motion was not successful. Management intends to defend against this claim vigorously. In October 2015, the Company filed a counterclaim against the U.S. contractor. In December 2015, the Company and the U.S. Contractor agreed to non-binding mediation. This mediation was unsuccessful in resolving this issue.

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.

(Expressed in thousands of Canadian dollars)

9. Long-term liability:

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

	2015	2014
Balance, beginning of year	$ 599	$ 653
Payments made	(79)	(79)
Adjustment to and unwinding of discount	19	25
Reversal of long-term liability	(539)	-
	-	599
Less: current portion	-	79
Balance, end of year	$ -	$ 520

The Company has a tenure agreement with Mr. Bennett, the former CEO of the Company, which expires on December 31, 2022. The tenure payments were made on a monthly basis in the amount of $6,583 ($79,000 annually). On March 16, 2016, a jury found Mr. Bennett guilty of conspiracy to commit fraud and major fraud against the United States (note 8 and 21). Accordingly, the amounts payable by the Company under the tenure agreement have been applied against the amounts owed by Mr. Bennett, and the long-term liability has been de-recognized as at December 31, 2015.

10. Borrowings:

As at December 31, 2015, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities	Principal	Interest rate	Maturity date	Unamortized transaction costs	Carrying value
FW Term Loan	$ 15,000	BA + 4.15%	Sep 26, 2017	$ (127)	$ 14,873
SGRS Term Loan	6,300	BA + 2.25%	Jun 19, 2018	(105)	6,195
ML Term Loan	34,600	BA + 2.50%	Aug 19, 2018	(280)	34,320
	$ 55,900			$ (512)	$ 55,388

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
FW Line of Credit	$ 2,000	BA + 4.50%	Sep 26, 2017	$ -	$ 2,000
SGRS Line of Credit	500	BA + 2.25%	Jun 19, 2018	-	500
ML Line of Credit	1,000	Prime + 1.50%	Aug 19, 2018	-	1,000
	$ 3,500			$ -	$ 3,500

(Expressed in thousands of Canadian dollars)

10. Borrowings (continued):

As at December 31, 2014, the Company had the following term loan facility and operating line of credit:

Term loan facility	Principal	Interest rate	Maturity date	Unamortized transaction costs	Carrying value
FW Term Loan	$ 15,000	BA + 4.15%	Sep 26, 2017	$ (195)	$ 14,805

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
FW Line of Credit	$ 2,000	BA + 4.50%	Sep 26, 2017	$ -	$ 2,000

(a) FW Term Loan and Line of Credit:

On September 26, 2014, concurrent with the Franworks Acquisition, FW LP borrowed a non-amortizing $15.0 million term loan (the “FW Term Loan”) and a $2.0 million demand operating facility (the “FW Line of Credit”) from a banking syndicate (the “FW Term Loan”). The FW Term Loan and FW Line of Credit are secured by a general security agreement over the assets of FW LP, an assignment of the royalty earned under the Franworks Licence and Royalty Agreement and a guarantee from the Company.

The FW Term Loan and FW Line of Credit are 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, 2015, the Company and FW LP were in compliance with all financial covenants associated with this facility.

(b) SGRS Term Loan and Line of Credit:

On June 19, 2015, concurrent with the Sutton Acquisition, SGRS LP borrowed a non-amortizing $6.3 million term loan (the “SGRS Term Loan”) and a $0.5 million demand operating facility (the “SGRS Line of Credit”) from a Canadian chartered bank. The SGRS Term Loan and SGRS Line of Credit are secured by the SGRS Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement.

The SGRS Term Loan and SGRS Line of Credit are subject to certain financial covenants, including a covenant for SGRS LP to maintain EBITDA for the trailing twelve month period of at least $2.9 million. As at December 31, 2015, SGRS LP was in compliance with all financial covenants associated with this facility.

(c) ML Term Loan and Line of Credit:

On August 19, 2015, concurrent with the acquisition of the ML Rights, ML LP borrowed a non-amortizing $34.6 million term loan and a $1.0 million demand operating facility (the “ML Line of Credit”) from a Canadian chartered bank. The ML Term Loan and ML Line of Credit are secured by the ML Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement.

The ML Term Loan and ML Line of Credit are subject to certain financial covenants, including a covenant for ML LP to maintain a funded debt to EBITDA ratio of not more than 3.0:1.0. As at December 31, 2015, ML LP was in compliance with all financial covenants associated with this facility.

(Expressed in thousands of Canadian dollars)

11. Interest rate swaps

In October 2015, the Company entered into interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for the SGRS Term Loan and the ML Term Loan.

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. The following table summarizes the interest rate swap agreements outstanding as of December 31, 2015:

	Notional amount	Effective interest rate	Maturity date	Unrealized loss
SGRS LP	$ 6,300	3.41%	Jun 19, 2018	$ (31)
ML LP	34,600	3.62%	Aug 13, 2018	(266)
	$ 40,900			$ (297)

12. Share capital:

As at December 31, 2015, 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:

	December 31, 2015		December 31, 2014	
	Common shares	Amount	Common shares	Amount
Balance, beginning of year	68,530,173	$ 115,013	38,778,897	$ 97,156
Common shares issued in connection with:				
Public offering, net of issuance costs and taxes	42,595,000	110,144	14,375,000	32,938
April 1, 2015 new store roll-in (note 4(a))	1,835,728	4,938	-	-
Dividend reinvestment plan	84,595	201	-	-
Options exercised	20,000	61	1,143,125	2,693
Private placement (note 7)	-	-	5,240,964	8,700
Acquisition of FW Rights (note 7)	-	-	8,992,187	20,682
Reduction in stated capital	-	-	-	(47,156)
Balance, end of year	113,065,496	$ 230,357	68,530,173	$ 115,013

(a) August 2015 offering:

On August 18, 2015, the Company completed a public offering of 42,595,000 subscription receipts ("Subscription Receipts") including 1,854,000 Subscription Receipts pursuant to the partial exercise of the over-allotment option, at a price of $2.70 per Subscription Receipt, for gross proceeds of $115.0 million. After deducting issuance costs of $6.6 million, net proceeds were $108.4 million, which were used to partially fund the acquisition of the ML Rights (note 7), and for general corporate purposes. The deferred tax impact of $1.7 million on the share issue costs was recognized within share capital. Upon completion of the ML Rights acquisition, the Subscription Receipts were automatically exchanged into common shares of the Company.

(b) November 2014 offering:

In November 2014, the Company completed a public offering of 14,375,000 common shares, at a price of $2.40 per common share, for gross proceeds of $34.5 million. After deducting issuance costs of $2.1 million, net proceeds were $32.4 million. The deferred tax impact of $0.5 million on the share issue costs was recognized within share capital.

12. Share capital (continued):

(c) Reduction in stated capital:

At the annual meeting of the Company on June 30, 2014, the shareholders approved a resolution to reduce the stated capital to $50.0 million. This approval resulted in a reduction of share capital of $47.2 million and a corresponding reduction in accumulated deficit.

(d) Dividend reinvestment plan:

In November 2015, the Company adopted a dividend reinvestment plan (“DRIP”), commencing with the Company’s November 2015 dividend.

The DRIP 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.

13. Share-based compensation:

(a) Restricted share units:

During the year ended December 31, 2014, the Company introduced an 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.

During the year ended December 31, 2014, the Company issued 250,000 restricted share units to the President and CEO at a grant date fair value of $2.35 totaling $0.6 million. These RSUs vest in their entirety on December 31, 2017. In April 2015, the CEO’s RSU plan was amended such that the RSUs will be equity-settled instead of cash-settled (as was previously the case). This led to a change in accounting treatment whereby the RSUs are recorded as a share-based compensation expense with a corresponding increase in equity instead of a liability. This resulted in the reclassification of $0.2 million to contributed surplus during the year ended December 31, 2015.

In April 2015, a total of 32,418 RSUs were granted collectively to three directors, at a grant date fair value of $2.78 per RSU totaling $0.1 million. The RSUs issued to the three directors vest in their entirety on April 1, 2018, and will be settled in common shares. In October 2015, there were 123,802 RSUs granted to the CFO at a grant date fair value of $2.68 per RSU totaling $0.3 million, effective October 26, 2015. These RSUs vest in three equal annual instalments on September 1, 2016, September 1, 2017, and September 1, 2018, and will be settled in common shares. In addition, there were 26,998 RSUs issued as dividend equivalents in 2015, in accordance with the LTIP.

(b) Share options:

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. Share options were granted to both employees and non-employees. 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.

(Expressed in thousands of Canadian dollars)

13. Share-based compensation (continued):

(b) Share options (continued):

During the years ended December 31, 2015 and 2014, the Company did not issue share options. During the year ended December 31, 2015, there were 20,000 share options exercised into common shares. The following table summarizes information relating to outstanding and exercisable options at December 31, 2015:

Exercise price	Number of options outstanding and exercisable	Weighted average remaining contractual life (years)
$ 1.50	154,500	2.50
$ 1.79	129,900	2.62
$ 2.12	401,100	0.67
	685,500	1.71

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

	2015		2014	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	705,500	$ 1.92	3,078,525	$ 1.89
Forfeited	-	-	(1,229,900)	1.99
Exercised	(20,000)	2.12	(1,143,125)	1.77
Outstanding and exercisable, end of year	685,500	$ 1.92	705,500	$ 1.92

14. Income per share:

	2015	2014
Income for the year	$ 5,972	$ 7,422
Net income per common share:		
Basic	0.07	0.17
Diluted	0.07	0.17
Weighted average number of shares:		
Basic	85,554,465	44,725,281
Diluted	85,764,453	44,867,709

(Expressed in thousands of Canadian dollars)

15. General and administrative expenses:

	2015	2014
Rent, supplies and administrative services	$ 117	$ 284
Insurance	157	199
Exchange and filing fees	212	144
Other	73	231
	$ 559	$ 858

Rent, supplies and administrative services for the years ended December 31, 2015 and 2014 were primarily related to a services agreement with Maxam Capital Corp. (note 20).

16. Professional fees:

	2015	2014
Legal	$ 186	$ 1,064
Audit and tax	128	129
Other	29	200
	$ 343	$ 1,393

17. Other finance costs:

	2015	2014
Interest expense on promissory note	$ 98	$ 47
Amortization of deferred financing fees	127	17
Loan application fee	-	25
Adjustment to and unwinding of discount on financial liabilities	19	25
Foreign exchange loss	182	28
Other finance costs	$ 426	$ 142

(Expressed in thousands of Canadian dollars)

18. 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 long-term bank loans approximates their fair value as these facilities bear interest at floating market interest rates. The fair value of the long-term liability and interest rate swap liabilities are measured using Level 2 inputs.

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

		2015		2014
Assets carried at amortized cost:				
Cash and cash equivalents	$	8,889	$	34,511
Royalties and management fees receivable		2,280		1,062
Amounts receivable		29		435
	$	11,497	$	36,008
Liabilities carried at amortized cost:				
Accounts payable and accrued liabilities	$	914	$	616
Long-term bank loans		55,388		14,805
	$	56,302	$	15,421
Liabilities carried at fair value:				
Long-term liability	$	-	$	599
Interest rate swap liabilities		297		-
	$	297	$	599

(Expressed in thousands of Canadian dollars)

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. Credit risk is associated with the Company's cash and cash equivalents, royalties and management fees receivable, and amounts receivable.

Credit risk on the Company's cash and cash equivalents are mitigated by holding these amounts with a Canadian charted bank of high creditworthiness. Credit risk on the royalties and management fees receivable is monitored through regular review of the operating and financing activities of Franworks, Sutton, and Mr. Lube.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at December 31, 2015 and 2014 were as follows:

		2015		2014
Cash and cash equivalents	$	8,889	$	34,511
Royalties and management fees receivable		2,280		1,062
Amounts receivable		29		435
	$	11,198	$	36,008

The aging of royalties and management fees receivable, as well as amounts receivable at December 31, 2015 and 2014 were as follows:

		2015		2014
Current	$	2,294	$	1,497
Over 30 days		15		-
	$	2,309	$	1,497

19. Financial risk management (continued):

(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.

As at December 31, 2015, the Company had a cash and cash equivalents balance of $8.9 million (2014 - $34.5 million) and positive working capital of $5.1 million (2014 - $33.9 million). Management expects to refinance the non-amortizing loans as they become due, and has sufficient cash resources to settle other contractual liabilities as they become payable.

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

	Carrying amount	Contractual cash flow	2016	2017	2018	2019	Thereafter
Accounts payable and accrued liabilities	$ 914	$ 914	$ 914	$ -	$ -	$ -	$ -
Long-term bank loan(1)	55,388	61,134	2,216	17,019	41,899	-	-
Total contractual obligations	$ 56,302	$ 62,048	$ 3,130	$ 17,019	$ 41,899	$ -	$ -

(1) Includes the impact of interest rate swap agreements.

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 or future cash flows will fluctuate due to changes in foreign exchange rates. The Company is exposed to currency risk as a result of (i) the translation of Franworks' U.S. restaurant dollar sales into Canadian dollars for the purposes of calculating the monthly royalty; (ii) legal costs denominated in U.S. dollars related to the John Bennett indemnity claim (note 8(a)); and (iii) the expected repayment of legal costs the Company recovered from the insurance underwriter (note 8(b)). As at December 31, 2015, the Company had no foreign exchange contracts. However, it is the Company's practice to hold U.S. dollar cash to reduce exposure to foreign exchange fluctuations.

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

Expressed in thousands of U.S. dollars	2015	2014
Cash and cash equivalents	$ 1,315	$ -
Royalties and amounts receivable	103	374
Provisions	(4,460)	(878)
Net exposure in thousands of U.S. dollars	$ (3,042)	$ (504)

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and comprehensive income and loss by approximately $0.4 million as at December 31, 2015. A similar strengthening (weakening) as at December 31, 2014 would have increased (decreased) equity and comprehensive income by approximately $0.6 million.

(Expressed in thousands of Canadian dollars)

19. Financial risk management (continued):

(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's exposure to interest rate risk mainly arises from the long-term bank loans, which are subject to floating interest rates. As at December 31, 2015, interest rate risk is partially mitigated by interest rate swap arrangements that fix the interest rates on $40.9 million of $55.0 million of the Company's floating rate term loan facilities.

Based on the balance outstanding on December 31, 2015, a one percentage point increase (decrease) in the interest rate would increase (decrease) interest expense by approximately $0.2 million. 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 $0.2 million due to significant short term investments in excess of the bank loan.

(e) 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 loans. The Board of Directors does not establish quantitative return on capital criteria for management. The Board of Directors reviews the capital structure on a quarterly basis.

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

20. Related parties:

Key management personnel of the Company includes Members of the Board of Directors, the President and Chief Executive Officer ("CEO"), and Chief Financial Officer ("CFO").

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

	2015	2014
Short-term benefits	$ 777	$ 316
Share-based compensation	290	280
	$ 1,067	$ 596

During the year ended December 31, 2015, the Company paid fees of $1.1 million (2014 – $0.8 million) 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 approximately $30,000 per month, 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, which includes rent and administrative services for approximately $9,000 per month.

20. Related parties (continued):

As at December 31, 2015, Franworks is considered to be a related party of the Company by virtue of a common director of Franworks and the Company. As at December 31, 2015, the Company had a royalty income receivable from Franworks of $1.1 million (2014 - $1.1 million). These amounts were received from Franworks when due.

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.

21. Subsequent events:

(a) Election by Board of Directors and CEO to receive compensation in RSUs:

In January 2016, the Company announced that the Board of Directors of the Company have elected to receive all compensation related to 2016 in the form of RSUs. In addition, the Company's President and CEO has elected to receive at least 45% of his base salary related to 2016 in RSUs. The RSUs will be issued quarterly pursuant to DIV's long-term incentive plan at the five-day weighted average trading price of DIV's common shares as at the end of each quarter.

(b) John Bennett indemnity claim and liability to insurance underwriter:

Mr. Bennett was tried between February 22, 2016 and March 16, 2016. On March 16, 2016, the jury returned a guilty verdict on both counts of conspiracy to commit fraud and major fraud against the United States. As at March 29, 2016, the Company has incurred approximately US$4.6 million and $0.6 million of legal costs related to the indemnity claim, and intends to obtain recourse against Bennett's assets, including, without limitation, the balance of the payments still due under the tenure agreement (note 9).

In light of the guilty verdict, the Company expects that its insurance underwriter will request a reimbursement for all legal costs advanced to Mr. Bennett (approximately $4.6 million or US$3.3 million) that were previously recovered from the insurance underwriter.

The net amounts advanced to Mr. Bennett in 2016 of $1.7 million and the amounts that the Company expects that it will be required to reimburse to the insurance underwriter of $4.6 million (or US$3.3 million) will be taken as a tax deduction in the Company's 2016 tax return, and increase its non-capital losses by approximately $6.3 million.

(c) Extension agreement

On March 24, 2016, DIV, FW LP, Franworks Royalties GP Inc., and OJFG entered into an extension agreement pursuant to which the parties agreed to: (i) extend the date for the payment of the 637,051 DIV shares to OJFG in respect of the 2015 Franworks Royalty Pool Amendment from April 1, 2016 to April 3, 2017; and (ii) extend the deadline under the Franworks Licence and Royalty Agreement from March 26, 2016 to April 3, 2017 for the expenditure by OJFG of $8.0 million to refurbish and renovate certain Elephant & Castle restaurants in the Franworks Royalty Pool.