Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2016 and 2015

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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, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, 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 28, 2017
Vancouver, Canada

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

As at December 31, 2016 and 2015

	Note	2016	2015
Assets			
Current assets:			
Cash and cash equivalents	4	$ 74,974	$ 8,889
Royalties and management fees receivable	6	1,518	2,280
Amounts receivable		93	29
Prepaid expenses and other		87	75
		76,672	11,273
Deferred income tax asset	7	2,053	9,115
Intangible assets	8	171,498	284,147
		$ 250,223	$ 304,535
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 592	$ 914
Restricted share unit obligation	13	434	-
Provisions	9	-	6,419
		1,026	7,333
Long-term bank loans, net of deferred financing charges	10	40,659	55,388
Interest rate swap liabilities	11	97	297
Shareholders' equity:			
Share capital	12	178,256	230,357
Contributed surplus		25,161	8,542
Retained earnings		5,024	2,618
		208,441	241,517
		$ 250,223	$ 304,535

Nature of operations (note 1)
Contingencies (note 9)

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

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

Years ended December 31, 2016 and 2015

	Note		2016		2015
Royalty income	5	$	27,869	$	19,463
Management fees			302		127
			28,171		19,590
Expenses					
Salaries and benefits			1,228		860
Share-based compensation	13		747		290
General and administration	15		510		559
Professional fees	16		267		343
Litigation	9		3,516		6,409
Royalty transition credit	5		-		884
Impairment of intangible asset	8		2,202		-
Gain on extinguishment of long-term liability	17		-		(539)
			8,470		8,806
Income from operations			19,701		10,784
Interest expense on credit facilities			(2,159)		(1,356)
Other finance income (costs), net	18		5		(238)
Fair value adjustment on interest rate swaps	11		200		(297)
Income before income taxes			17,747		8,893
Income tax expense	7		7,062		2,921
Net income and comprehensive income		$	10,685	$	5,972
Basic weighted average number of shares outstanding			112,818,984		85,554,465
Diluted weighted average number of shares outstanding			113,228,593		85,764,453
Basic income per share	14	$	0.09	$	0.07
Diluted income per share	14	$	0.09	$	0.07

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, 2016 and 2015

	Note	Common shares	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2016		113,065,496	$ 230,357	$ 8,542	$ 2,618	$ 241,517
Common shares issued on roll-in of Sutton agents	8(b)	455,392	1,044	-	-	1,044
Common shares issued on DRIP		553,274	1,252	-	-	1,252
Share options exercised		375,600	1,122	(358)	-	764
Restricted share units vested		23,561	58	(58)	-	-
Cancellation of shares	8(a)	(8,992,187)	(22,031)	-	-	(22,031)
Share capital adjustment	12(a)	-	(33,546)	16,773	16,773	-
Share-based compensation		-	-	262	-	262
Dividends declared		-	-	-	(25,122)	(25,122)
Reversal of dividends payable to OJFG	8(a)	-	-	-	70	70
Comprehensive income		-	-	-	10,685	10,685
Balance, December 31, 2016		105,481,136	$ 178,256	$ 25,161	$ 5,024	$ 208,441

	Note	Common shares	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2015		68,530,173	$ 115,013	$ 8,210	$ 14,414	$ 137,637
Common shares issued on public offering, net of issuance costs and taxes	12(c)	42,595,000	110,144	-	-	110,144
Common shares issued on roll-in of Franworks restaurants	8(a)	1,835,728	4,938	-	-	4,938
Common shares issued on DRIP		84,595	201	-	-	201
Share options exercised		20,000	61	(19)	-	42
Share-based compensation		-	-	351	-	351
Dividends declared		-	-	-	(17,698)	(17,698)
Dividends payable to OJFG		-	-	-	(70)	(70)
Comprehensive income		-	-	-	5,972	5,972
Balance, December 31, 2015		113,065,496	$ 230,357	$ 8,542	$ 2,618	$ 241,517

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, 2016 and 2015

	2016	2015
Cash flows from (used in) operating activities:		
Net income for the period	$ 10,685	$ 5,972
Adjustments for:		
Share-based compensation	747	290
Fair value adjustments on interest rate swaps	(200)	297
Impairment of intangible asset	2,202	-
Gain on extinguishment of long-term liability	-	(539)
Interest expense on credit facilities	2,159	1,356
Other finance costs (income), net	(5)	238
Foreign exchange gain (loss)	237	(182)
Deferred income taxes	7,062	2,921
Changes in non-cash operating items:		
Royalties and management fees receivable	762	(1,218)
Amounts receivable	(64)	406
Prepaid expenses and other	(12)	51
Accounts payable and accrued liabilities	(303)	228
Provisions	(6,419)	4,920
Interest paid	(2,159)	(1,454)
Interest received	101	188
Repayment of long-term liability	-	(79)
Net cash provided by operating activities	14,793	13,395
Cash flows from (used in) financing activities:		
Repayment of debt	(15,000)	-
Proceeds from issuance of debt	-	40,900
Debt financing and prepayment fees	(62)	(444)
Proceeds from issuance of equity	-	115,007
Equity issuance costs	-	(6,571)
Proceeds from exercise of share options	764	42
Payment of dividends	(23,870)	(17,497)
Net cash from (used in) financing activities	(38,168)	131,437
Cash flows used in investing activities:		
Proceeds from sale of FW Rights	89,460	-
Purchase of intangible assets	-	(170,454)
Net cash from (used in) investing activities	89,460	(170,454)
Net increase (decrease) in cash and cash equivalents	66,085	(25,622)
Cash and cash equivalents, beginning of year	8,889	34,511
Cash and cash equivalents, end of year	$ 74,974	$ 8,889

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, 2016 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 and franchisors in North America ("Royalty Partners").

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 (the "Franworks Royalty Pool"). On November 27, 2016, the Company sold the FW Rights (note 8(a)).

On June 19, 2015, the Company completed its second royalty acquisition (the "Sutton Acquisition"), whereby it indirectly acquired, 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 "SGRS Rights"). The Company granted Sutton the licence to use the SGRS Rights for a term ending on December 31, 2114 in exchange for a royalty payment initially equal to $56.25 per agent per month (the "Sutton Royalty Rate") for the number of agents included in the royalty pool (the "Sutton Royalty Pool"). Effective July 1, 2016, the Sutton Royalty Rate was increased to $57.375 per agent per month.

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 (the "Mr. Lube Royalty Pool").

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

2. Basis of preparation:

(a) Statement of compliance:

These 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 28, 2017.

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for the interest rate swaps and restricted share unit obligation, 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 and are not amortized as they have an indefinite life.

  The Company tests intangible assets for impairment annually or when there is any indication that an asset may be impaired. This requires the Company to use a valuation technique to determine if impairment exists. This valuation technique that is dependent on a number of different variables that requires management to exercise judgment. As a result, the estimated cash flows the intangible assets 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 8).

- 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:

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

(e) Impairment of intangible assets:

Intangible assets that are not amortized are subject to an annual impairment test or when events or changes in circumstances indicate that the carrying value may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or “CGUs”). The recoverable amount is the higher of an asset’s fair value less costs 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 share units.

(h) Employee benefits:

(i) Share options:

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

(ii) Restricted share units:

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

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

(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, 2016 and 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 realize 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 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) Changes in accounting policies and disclosures:

Effective January 1, 2016, the Company adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments do not require any significant change to current practice, but will facilitate improved financial statement disclosures. The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

(m) New standards applicable in future periods:

In May 2014, the International Accounting Standards Board ("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, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

IFRS 9, *Financial Instruments*, 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.

(Tabular amounts expressed in thousands of Canadian dollars)

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.

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company does not expect these amendments to have a material impact on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12, *Income Taxes*. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset, and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company does not expect these amendments to have a material impact on its consolidated financial statements.

4. Cash and cash equivalents:

	2016	2015
Cash	$ 812	$ 4,389
Cash equivalents	74,162	4,500
	$ 74,974	$ 8,889

5. Royalty pools:

(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.

5. Royalty pools (continued):

(a) Franworks (continued):

On November 27, 2016, the Company completed the sale of the FW Rights (the “Sale Transaction”) (note 8(a)). In connection with the Sale Transaction, DIV, Franworks and certain other parties entered into a mutual release and termination agreement to terminate the previously existing royalty and other commercial arrangements between the parties. As a result, the year ended December 31, 2016 includes royalty income from Franworks from January 1, 2016 to November 27, 2016, the date the FW Rights were sold.

Royalty income from Franworks for the years ended December 31, 2016 and 2015 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants		2016		2015
Restaurants in the Franworks Royalty Pool at year end		-		82
Franworks Royalty Pool system sales	$	181,117	$	210,130
Royalty income		11,024		12,795

During the year ended December 31, 2016, royalty income from Franworks includes make-whole payments totaling $0.2 million (2015 - $0.2 million) on lost system sales of $2.6 million (2015 - $3.1 million) related to renovations.

(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 8(b)).

Royalty income from Sutton for the years ended December 31, 2016 and 2015 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents and the Sutton Royalty Rate		2016		2015
Agents in the Sutton Royalty Pool at year end		5,400		5,185
Sutton Royalty Rate (per agent per month)	$	57.375	$	56.250
Royalty income		3,608		1,867

On July 4, 2016, the Sutton Royalty Pool was adjusted to increase the number of agents in the Sutton Royalty Pool from 5,185 to 5,400 agents. Effective July 1, 2016, the Sutton Royalty Rate increased from $56.25 per agent to $57.375 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2016.

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.

5. Royalty pools (continued):

(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 8(c)).

Royalty income from Mr. Lube for the years ended December 31, 2016 and 2015 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of locations		2016		2015
Locations in the Mr. Lube Royalty Pool at year end		117		117
Mr. Lube Royalty Pool system sales	$	189,838	$	69,082
Royalty income		13,237		4,801

During the year ended December 31, 2016, royalty income from Mr. Lube includes make-whole payments totaling $0.04 million on lost system sales of $0.6 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.

The monthly royalty payments received from Mr. Lube related to the periods ending on or before December 31, 2015 were 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.

6. Royalties and management fees receivable:

		2016		2015
Franworks	$	-	$	1,122
Sutton		334		315
Mr. Lube		1,184		843
	$	1,518	$	2,280

7. Deferred income taxes:

		2016		2015
Deferred income tax expense	$	7,062	$	2,921
	$	7,062	$	2,921

(Tabular amounts expressed in thousands of Canadian dollars)

7. 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 income before income taxes. The reason for the difference is as follows:

	2016	2015
Income before income taxes	$ 17,747	$ 8,893
Combined Canadian federal and provincial rates	26%	26%
Expected tax expense	4,614	2,312
Increased (decreased) by:		
Deferred taxes on FW Rights transaction	2,284	-
Non-deductible impairment loss	573	-
Permanent and other non-deductible differences	69	76
Change in prior year estimates	(478)	533
	$ 7,062	$ 2,921

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

	2016	2015
Deferred tax asset:		
Non-capital losses	$ 3,479	$ 7,898
Financing and share issuance costs	1,266	1,705
Provisions and long-term liability	-	1,643
Intangible assets	312	318
Investment tax credits	199	223
Other	138	84
Gross deferred tax asset	5,394	11,871
Deferred tax liability:		
Intangible assets	(3,341)	(2,756)
Net deferred tax asset	$ 2,053	$ 9,115

(Tabular amounts expressed in thousands of Canadian dollars)

7. Deferred income taxes (continued):

As at December 31, 2016, the Company has non-capital loss carry forwards of $13.4 million (2015 - $30.4 million), which can be carried forward and applied against future taxable income and expires as summarized in the table below. Given the anticipated monthly royalty income to be received from 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, 2016 and 2015.

2033	$	10,261
2034		3,120
	$	13,381

The deferred tax liability as at December 31, 2016 is largely associated with the temporary differences on the Company's intangible assets, which have eligible capital expenditures of approximately $115.0 million (2015 - $183.3 million).

8. Intangible assets:

	FW Rights	SGRS Rights	ML Rights	Total
	(a)	(b)	(c)	
Balance, January 1, 2015	108,755	-	-	108,755
Roll-in of Franworks restaurants	4,938	-	-	4,938
Acquisition of SGRS Rights	-	31,229	-	31,229
Acquisition of ML Rights	-	-	139,225	139,225
Balance, December 31, 2015	113,693	31,229	139,225	284,147
Roll-in of Sutton agents	-	1,044	-	1,044
Impairment loss	(2,202)	-	-	(2,202)
Transferred to asset held for sale	(111,491)	-	-	(111,491)
Balance, December 31, 2016	$ -	$ 32,273	$ 139,225	$ 171,498

(a) FW Rights:

(i) Acquisition of 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.

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 5(a)).

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.

8. Intangible assets (continued):

(a) FW Rights (continued):

(ii) Franworks Royalty Pool Amendment:

On April 1, 2015, the Franworks Royalty Pool was 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"). 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 "FW Additional Entitlement"). The FW Additional Entitlement is automatically exchanged by Franworks into common shares of DIV pursuant to the Franworks Exchange Agreement. The initial consideration for the estimated net additional royalty revenue was 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 was 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 Franworks' wholly owned subsidiary, OJFG.

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, OJFG was entitled to receive 637,051 DIV shares.

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, such shares to be entitled to receive a dividend; 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.

(iii) Sale of FW Rights:

On August 31, 2016, DIV and FW LP entered into an agreement to sell the FW Rights for: (i) $90.0 million of cash; (ii) the cancellation of 8,992,187 DIV common shares held by OJFG; (iii) the extinguishment of OJFG's right to receive 637,051 DIV common shares related to the April 1, 2015 royalty pool adjustment; and (iv) the extinguishment of OJFG's right to receive accrued dividends on these shares to the date of closing.

As at September 30, 2016, the FW Rights was classified as held for sale, and the Company recorded a non-cash impairment of $1.4 million. On November 27, 2016, the sale of the FW Rights closed and the Company recorded an additional impairment of $0.8 million. The recoverable amount of $111.5 million for the FW Rights was determined based on the fair value of the consideration received as per the Sale Transaction of $112.0 million, less transaction costs of $0.5 million.

8. Intangible assets (continued):

(b) SGRS Rights:

(i) Acquisition of SGRS Rights:

On June 19, 2015, the Company acquired, through SGRS LP, the SGRS 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 SGRS Rights back to Sutton for 99 years in exchange for a royalty payment equal to the Sutton Royalty Pool multiplied by the Sutton Royalty Rate (note 5(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.

(ii) Sutton Royalty Pool Amendment:

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

On July 4, 2016, the Sutton Royalty Pool was adjusted to increase the number of agents from 5,185 to 5,400 agents. The consideration for the additional royalty income is approximately $1.0 million, and was calculated using a 7.5% discount of the estimated royalty revenue added to the Sutton Royalty Pool. The consideration was 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 May 24, 2016. Based on a weighted average closing price of $2.2926 per share for such period, the consideration payable for the net additional royalty income was paid to Sutton in the form of 455,392 DIV shares which were issued to Sutton on July 4, 2016.

(c) ML Rights:

(i) Acquisition of 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 5(c)).

8. Intangible assets (continued):

(c) ML Rights (continued):

(i) Acquisition of ML Rights (continued):

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.

(ii) Mr. Lube Royalty Pool Amendment:

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

During the year ended December 31, 2016, there were no additions to the Mr. Lube Royalty Pool.

(d) Impairment assessment:

Annually, on December 31, 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 2017, revenue is projected to grow at a rate of 2.0%. These projected cash flows are discounted at pre-tax rates, based on the risks associated with the assets, which range from 12.2% to 14.8%.

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, 2016 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, 2016, the Company has determined that no additional impairment exists.

An impairment loss was recorded in the year for the intangible asset sold (note 8(a)).

(Tabular amounts expressed in thousands of Canadian dollars)

9. Provisions and contingencies:

	John Bennett Indemnity Claim	Insurance Underwriter Provision	Other	Total
	(a)	(b)		
Balance, January 1, 2015	$ 654	$ 745	$ 100	$ 1,499
Provisions made	5,228	2,734	-	7,962
Provisions used	(3,351)	-	-	(3,351)
Change in foreign exchange rate	23	286	-	309
Balance, December 31, 2015	2,554	3,765	100	6,419
Provisions made	4,488	5,039	75	9,602
Provisions used	(6,897)	(6,355)	(175)	(13,427)
Provisions reversed	-	(2,379)	-	(2,379)
Change in foreign exchange rate	(145)	(70)	-	(215)
Balance, December 31, 2016	$ -	$ -	$ -	$ -

(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 on March 16, 2016, the jury returned a guilty verdict on both counts (conspiracy to commit fraud and major fraud against the United States). On August 9, 2016, the US courts convicted and sentenced Mr. Bennett.

On December 7, 2016, the Company entered into an agreement with its insurance underwriter and Mr. Bennett to settle Mr. Bennett's indemnification claim against the Company and related matters. The Company agreed to make a payment totaling $1.1 million in full satisfaction of all remaining and potential liabilities that it could have in respect of Mr. Bennett's legal expenses, reward for tenure contract, and any other claim he could assert. Mr. Bennett signed a full and final release of all past, present and future claims against the Company and its past and current employees, directors and officers, including not seeking recourse against the Company or any third party that could claim contribution and indemnity from the Corporation directly or indirectly in respect of any matter.

(b) Insurance underwriter provision:

The Company has received reimbursements totaling $8.7 million from its insurance underwriter for Mr. Bennett's legal costs incurred in connection with his criminal defense, and as referenced in section (a) of this note. The Company paid $6.4 million to settle the underwriter's claim for repayment of amounts advanced to DIV in respect of Mr. Bennett's past indemnity claims. The insurance underwriter, DIV, and Mr. Bennett have signed full and final mutual releases.

(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 Mr. Bennett. As part of the settlement agreement with Mr. Bennett described in note 9(a), Mr. Bennett has released all parties from this claim.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Provisions and contingencies (continued):

(d) Claim by U.S. contractor:

In 2008, Sevenson Environmental Services Inc. ("Sevenson"), 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 were the subject of the John Bennett litigation.

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, Sevenson 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 and punitive damages.

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. In October 2015, the Company filed a counterclaim against Sevenson. In December 2015, the Company and Sevenson agreed to non-binding mediation. This mediation was unsuccessful in resolving this issue.

Management intends to defend against this claim vigorously and has prepared a significant portion of its defense and counterclaim against Sevenson. 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.

10. Borrowings:

As at December 31, 2016, 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
SGRS LP term loan	$ 6,300	BA + 2.25%	Jun 19, 2018	$ (63)	$ 6,237
ML LP term loan	34,600	BA + 2.50%	Aug 19, 2018	(178)	34,422
	$ 40,900			$ (241)	$ 40,659

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
SGRS LP line of credit	500	BA + 2.25%	Jun 19, 2018	-	500
ML LP line of credit	1,000	Prime + 1.50%	Aug 19, 2018	-	1,000
	$ 1,500			$ -	$ 1,500

(Tabular amounts expressed in thousands of Canadian dollars)

10. Borrowings (continued):

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 LP term loan	$ 15,000	BA + 4.15%	Sep 26, 2017	$ (127)	$ 14,873
SGRS LP term loan	6,300	BA + 2.25%	Jun 19, 2018	(105)	6,195
ML LP 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 LP line of credit	$ 2,000	BA + 4.50%	Sep 26, 2017	$ -	$ 2,000
SGRS LP line of credit	500	BA + 2.25%	Jun 19, 2018	-	500
ML LP line of credit	1,000	Prime + 1.50%	Aug 19, 2018	-	1,000
	$ 3,500			$ -	$ 3,500

(a) FW LP term loan and line of credit:

As at December 31, 2015, FW LP had a credit agreement (the “FW LP Credit Agreement”) that consists of a non-amortizing $15.0 million term loan and a $2.0 million demand operating facility. The FW LP term loan and line of credit were 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.

On November 28, 2016, in connection with the sale of the FW Rights (note 8(a)), the FW LP term loan was fully repaid. In addition, the Company and FW LP were released from all obligations under the FW LP Credit Agreement and all related security documents as guarantors and credit parties.

(b) SGRS LP 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 and a $0.5 million demand operating facility from a Canadian chartered bank. The SGRS LP term loan and SGRS LP line of credit are secured by the SGRS Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement.

The SGRS LP term loan and SGRS LP 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, 2016, SGRS LP was in compliance with all financial covenants associated with this facility.

(c) ML LP 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 LP term loan and line of credit are secured by the ML Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement.

The ML LP term loan and 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, 2016, ML LP was in compliance with all financial covenants associated with this facility.

(Tabular amounts 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 LP and ML LP term loan facilities.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. The following table summarizes the interest rate swap agreements outstanding as of December 31, 2016:

	Notional amount	Fixed interest rate	Maturity date	Unrealized loss since inception
SGRS LP	$ 6,300	3.41%	Jun 19, 2018	$ 15
ML LP	34,600	3.62%	Aug 13, 2018	82
	$ 40,900			$ 97

12. Share capital:

As at December 31, 2016, the authorized share capital of the Company consists of an unlimited number of common shares.

(a) Reduction in stated capital:

On November 10, 2016, the Company held a Special Meeting whereby shareholders approved a special resolution to reduce the stated capital to $200.0 million. This approval resulted in a reduction of share capital of $33.5 million, and a combined increase in contributed surplus and retained earnings of $33.5 million.

(b) 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.

(c) 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 8), 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.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share-based compensation:

(a) Restricted share units:

In 2014, the Company adopted a long-term incentive plan (the "Plan") available to both employees and non-employees as a form of retention and incentive compensation. The maximum number of common shares issued under the Plan is 10% of the issued and outstanding common share of the Company at the time of the grant.

Under the Plan, the Company can issue RSUs whereby each RSU is equal in value to one common share of the Company and is entitled to dividends that would arise thereon if it was an issued and outstanding common share. The notional dividends are recorded as additional issuance of RSUs during the life of the RSU. Currently, all the outstanding RSUs will be settled in common shares, unless the RSU holder elects to settle a portion of the RSUs in cash to pay the applicable withholding taxes. As a result of this option, the RSUs are accounted for as a compound instrument that includes an equity-settled portion and a cash-settled portion.

The number of RSUs outstanding is as follows:

	2016		2015	
	Number of RSUs	Weighted average grant-date fair value	Number of RSUs	Weighted average grant-date fair value
Balance, beginning of year	433,218	$ 2.50	250,000	$ 2.35
Granted	168,992	2.31	156,220	2.70
Dividends earned	48,856	2.34	26,998	2.66
Vested	(45,050)	2.65	-	-
Balance, end of year	606,016	$ 2.42	433,218	$ 2.50

In April 2015, a total of 32,418 RSUs were granted to three directors at a grant date fair value of $2.78 per RSU, which vest in their entirety on April 1, 2018. In October 2015, there were 123,802 RSUs granted to the CFO at a grant date fair value of $2.68 per RSU, which vest in three equal annual instalments on September 1, 2016, September 1, 2017, and September 1, 2018.

In January 2016, the Company announced that the Board of Directors of the Company 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 the Company'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. In connection with this election, during the year ended December 31, 2016, the Company granted a total of 35,816 RSUs to three directors and 61,951 RSUs to the Company's President and CEO at a weighted average grant date fair value of $2.27 per RSU. These RSUs vest in their entirety on March 31, 2017.

On April 11, 2016, the Company issued 39,225 RSUs to three directors at a grant date fair value of $2.29 per RSU, which vest on April 1, 2019. On December 15, 2016, the Company issued 32,000 RSUs to management at a grant date fair value of $2.46 per RSU, which vest on December 15, 2017.

(Tabular amounts expressed in thousands of Canadian dollars)

13. Share-based compensation (continued):

(b) Share options:

Prior to the implementation of the Plan in 2014 as described above, the Company used share option awards as a form of compensation to employees and non-employees. Share options can be used to purchase common shares at a price equal to the fair market value of the Company's common shares at the grant date.

The following table summarizes information relating to outstanding and exercisable options as at December 31, 2016:

Exercise price	Number of options outstanding and exercisable	Weighted average remaining contractual life (years)
$ 1.50	103,000	1.50
$ 1.79	129,900	1.62
	232,900	1.57

Changes in the Company's outstanding options during the years ended December 31, 2016 and 2015 are summarized below:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	685,500	$ 1.92	705,500	$ 1.92
Exercised	(375,600)	2.12	(20,000)	2.12
Expired	(77,000)	2.12	-	-
Balance, end of year	232,900	1.66	685,500	$ 1.92

14. Income per share:

	2016	2015
Income for the year	$ 10,685	$ 5,972
Weighted average number of shares outstanding – basic	112,818,984	85,554,465
Dilutive adjustment for share options	103,450	209,988
Dilutive adjustment for RSUs	306,159	-
Weighted average number of shares outstanding – diluted	113,228,593	85,764,453
Net income per common share:		
Basic	$ 0.09	$ 0.07
Diluted	$ 0.09	$ 0.07

(Tabular amounts expressed in thousands of Canadian dollars)

15. General and administrative expenses:

	2016	2015
Rent, supplies and administrative services	$ 108	$ 117
Insurance	76	157
Exchange and filing fees	237	212
Other	89	73
	$ 510	$ 559

Rent, supplies and administrative services for the years ended December 31, 2016 and 2015 were primarily related to a services agreement with Maxam Capital Corp. (note 21).

16. Professional fees:

	2016	2015
Legal	$ 129	$ 186
Audit and tax	122	128
Other	16	29
	$ 267	$ 343

17. Gain on extinguishment of long-term liability:

As at December 31, 2014, the Company recorded a long-term liability of $0.5 million related to 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. On March 16, 2016, a jury found Mr. Bennett guilty of conspiracy to commit fraud and major fraud against the United States (note 9). Accordingly, the amounts payable by the Company under the tenure agreement was applied against the amounts owed by Mr. Bennett, and the long-term liability was de-recognized as at December 31, 2015.

18. Other finance income (costs), net:

	2016	2015
Foreign exchange gain (loss)	$ 237	$ (182)
Interest expense on promissory note	-	(98)
Loan prepayment fee	(62)	-
Finance income	101	188
Amortization of deferred financing charges	(271)	(127)
Adjustment to and unwinding of discount on financial liabilities	-	(19)
	$ 5	$ (238)

(Tabular amounts expressed in thousands of Canadian dollars)

19. Financial instruments:

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

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

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term bank loans approximates their fair value as these facilities bear interest at floating market interest rates. The fair value of the restricted share unit obligation is measured using Level 1 inputs. The fair value of the 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:

		2016		2015
Assets carried at amortized cost:				
Cash and cash equivalents	$	74,974	$	8,889
Royalties and management fees receivable		1,518		2,280
Amounts receivable		93		29
	$	76,585	$	11,198
Liabilities carried at amortized cost:				
Accounts payable and accrued liabilities	$	592	$	914
Long-term bank loans		40,659		55,388
	$	41,251	$	56,302
Liabilities carried at fair value:				
Restricted share unit obligation	$	434	$	-
Interest rate swap liabilities		97		297
	$	531	$	297

20. Financial risk management:

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

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

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

(Tabular amounts expressed in thousands of Canadian dollars)

20. Financial risk management (continued):

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is associated with the Company's cash 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 chartered 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 the Company's Royalty Partners. The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at December 31, 2016 and 2015 were as follows:

	2016	2015
Cash and cash equivalents	$ 74,974	$ 8,889
Royalties and management fees receivable	1,518	2,280
Amounts receivable	93	29
	$ 76,585	$ 11,198

The aging of royalties and management fees receivable, as well as amounts receivable at December 31, 2016 and 2015 were as follows:

	2016	2015
Current	$ 1,611	$ 2,294
Over 30 days	-	15
	$ 1,611	$ 2,309

(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, 2016, the Company had a cash and cash equivalents balance of $75.0 million (2015 - $8.9 million) and positive working capital of $75.6 million (2015 - $3.9 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	2017	2018	2019	2020	Thereafter
Accounts payable and accrued liabilities	$ 592	$ 592	$ 592	$ -	$ -	$ -	$ -
Long-term bank loans(1)	40,659	43,366	1,467	41,899	-	-	-
Total contractual obligations	$ 41,251	$ 43,958	$ 2,059	$ 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. With the increase of cash as a result of the sale of the FW Rights, liquidity risk has declined from prior year.

20. Financial risk management (continued):

(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. During the years ended December 31, 2016 and 2015, the Company was 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 9(a)); and (iii) the provision for legal costs the Company recovered from the insurance underwriter (note 9(b)).

As the Company sold the FW Rights on November 27, 2016 (note 8(a)), the Company is no longer exposed to currency risk related to the translation of the Franworks' U.S. restaurant dollar sales into Canadian dollars. In addition, on December 7, 2016, the Company settled the John Bennett indemnity claim and agreed to repay its insurance underwriter for certain legal costs reimbursed to Mr. Bennett. As a result, the Company is no longer exposed to currency risk arising from these matters.

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

Expressed in thousands of U.S. dollars		2016		2015
Cash and cash equivalents	$	188	$	1,315
Royalties and amounts receivable		-		103
Provisions		-		(4,460)
Net exposure in thousands of U.S. dollars	$	188	$	(3,042)

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 $0.02 million as at December 31, 2016. A similar strengthening (weakening) as at December 31, 2015 would have increased (decreased) equity and comprehensive income by approximately $0.4 million.

(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, 2016, interest rate risk is mitigated by interest rate swap arrangements that fix the interest rates on $40.9 million of $40.9 million of the Company's floating rate term loan facilities. As at December 31, 2015, interest rate risk was mitigated by interest rate swap arrangements on $40.9 million of $55.9 million of the Company's term loan facilities.

Based on the balance outstanding on December 31, 2016, a one percent point increase (decrease) in the interest rate would not have impacted interest expense, net of interest income and net of the change in fair value of the interest rate swap. 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 $0.1 million.

(e) Capital management:

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

Management defines capital as the Company's total shareholders' equity 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.

(Tabular amounts expressed in thousands of Canadian dollars)

21. Related party transactions:

In addition to information disclosed elsewhere in these consolidated financial statements, the Corporation had the following related party transactions during the years ended December 31, 2016 and 2015:

Key management personnel of the Company includes Members of the Board of Directors, the President and CEO, and CFO.

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

		2016		2015
Short-term benefits	$	961	$	777
Share-based compensation		747		290
	$	1,708	$	1,067

During the year ended December 31, 2016, the Company paid fees of $0.4 million (2015 – $1.1 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 with Maxam whereby Maxam provides rent and administrative services to the Company. During the year ended December 31, 2016, the Corporation paid Maxam approximately $0.1 million (2015 - $0.1 million).

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, Mr. Derek Doke. 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. On August 31, 2016, prior to entering into the agreement to sell the FW Rights (note 8(a)), Mr. Doke resigned as a director of the Company. As a result, Franworks ceased to be a related party of the Company.

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.