Consolidated Financial Statements of

DIVERSIFIED ROYALTY CORP.

Years ended December 31, 2017 and 2016

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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, 2017 and December 31, 2016, 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 is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

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, 2017 and December 31, 2016, 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, 2018
Vancouver, Canada

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

As at December 31, 2017 and 2016

	Note	2017	2016
Assets			
Current assets:			
Cash and cash equivalents	4	$ 85,816	$ 74,974
Royalties and management fees receivable	6	4,008	1,518
Amounts receivable		150	93
Prepaid expenses and other		96	87
		90,070	76,672
Deferred income tax asset	7	-	2,053
Interest rate swap assets	12	160	-
Intangible assets	8	225,475	171,498
		$ 315,705	$ 250,223
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 1,354	$ 592
Restricted share unit obligation	14	218	434
		1,572	1,026
Long-term bank loans, net of deferred financing charges	10	57,772	40,659
Convertible debentures	11	50,771	-
Deferred income tax liability	7	3,463	-
Interest rate swap liabilities		-	97
Shareholders' equity:			
Share capital	13	180,906	178,256
Contributed surplus		25,265	25,161
Equity component of convertible debentures	11	2,938	-
Retained earnings (deficit)		(6,982)	5,024
		202,127	208,441
		$ 315,705	$ 250,223

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, 2017 and 2016

	Note		2017		2016
Royalty income	5	$	20,613	$	27,869
Management fees			306		302
			20,919		28,171
Expenses					
Salaries and benefits			1,616		1,228
Share-based compensation	14		975		747
General and administration			568		510
Professional fees			209		267
Litigation	9		331		3,516
Impairment of intangible asset	8		-		2,202
			3,699		8,470
Income from operations			17,220		19,701
Interest expense on credit facilities			(2,080)		(2,159)
Other finance income, net	16		516		5
Fair value adjustment on interest rate swaps	12		257		200
Income before income taxes			15,913		17,747
Income tax expense	7		4,353		7,062
Net income and comprehensive income		$	11,560	$	10,685
Basic weighted average number of shares outstanding			105,916,177		112,818,984
Diluted weighted average number of shares outstanding			106,392,883		113,228,593
Basic income per share	15	$	0.11	$	0.09
Diluted income per share	15	$	0.11	$	0.09

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

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

Years ended December 31, 2017 and 2016

	Note	Common shares	Share capital	Contributed surplus	Equity component of convertible debentures	Retained earnings (deficit)	Total equity
Balance, January 1, 2017		105,481,136	$ 178,256	$ 25,161	$ -	$ 5,024	$ 208,441
Common shares issued on DRIP		801,556	2,213	-	-	-	2,213
Share options exercised		51,500	99	(22)	-	-	77
Restricted share units settled		147,745	338	(293)	-	-	45
Share-based compensation		-	-	419	-	-	419
Issuance of Debentures, net of expenses and taxes	11	-	-	-	2,938	-	2,938
Dividends declared		-	-	-	-	(23,566)	(23,566)
Comprehensive income		-	-	-	-	11,560	11,560
Balance, December 31, 2017		106,481,937	$ 180,906	$ 25,265	$ 2,938	$ (6,982)	$ 202,127

	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		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 settled		23,561	58	(58)	-	-
Cancellation of shares	8(a)	(8,992,187)	(22,031)	-	-	(22,031)
Share capital adjustment	13(b)	-	(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

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, 2017 and 2016

	2017	2016
Cash flows from (used in) operating activities:		
Net income	$ 11,560	$ 10,685
Adjustments for:		
Deferred income taxes	4,353	7,062
Impairment of intangible asset	-	2,202
Share-based compensation	975	747
Fair value adjustments on interest rate swaps	(257)	(200)
Interest expense on credit facilities	2,080	2,159
Other finance income, net	(516)	(5)
Foreign exchange gain (loss)	(14)	237
Interest paid	(1,627)	(2,159)
Interest received	828	101
Changes in non-cash operating items:		
Royalties and management fees receivable	(2,490)	762
Amounts receivable	(57)	(64)
Prepaid expenses and other	(9)	(12)
Accounts payable and accrued liabilities	(418)	(303)
Provisions	-	(6,419)
Net cash provided by operating activities	14,408	14,793
Cash flows from (used in) financing activities:		
Repayment of debt	-	(15,000)
Proceeds from issuance of debt	74,900	-
Debt financing and prepayment fees	(3,213)	(62)
Payment of dividends	(21,353)	(23,870)
Proceeds from exercise of share options	77	764
Net cash from (used in) financing activities	50,411	(38,168)
Cash flows from (used in) investing activities:		
Purchase of intangible asset	(53,977)	-
Proceeds from sale of FW Rights	-	89,460
Net cash from (used in) financing activities	(53,977)	89,460
Net increase in cash and cash equivalents	10,842	66,085
Cash and cash equivalents, beginning of year	74,974	8,889
Cash and cash equivalents, end of year	$ 85,816	$ 74,974

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, 2017 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 June 19, 2015, the Company 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, 2017, the Sutton Royalty Rate was increased to $58.523 per agent per month.

On August 19, 2015, the Company indirectly acquired 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").

On August 25, 2017, the Company indirectly acquired through AM Royalties Limited Partnership ("AM LP") (a wholly owned subsidiary of the Company), the Canadian AIR MILES trademarks and certain Canadian intellectual property rights (collectively, the "AIR MILES Rights") from a subsidiary of Aimia Inc. ("Aimia"). In accordance with the terms of two license agreements with LoyaltyOne Co. (collectively the "AIR MILES Licenses") acquired by AM LP as part of acquisition of the AIR MILES Rights, LoyaltyOne Co. has an exclusive right to use the AIR MILES Rights for the purposes of operating the AIR MILES reward program in Canada (the "AIR MILES Program") for an indefinite term in exchange for a royalty payment equal to 1% of gross billings from the AIR MILES Program.

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 Original Joe's Franchise Group Inc. ("OJFG"), 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)).

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 29, 2018.

(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.

2. Basis of preparation:

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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.

- Convertible debentures:

  The Company exercises judgment in determining the allocation of the equity and liability component of the convertible debenture. The liability allocation is based on the estimated fair value of a similar liability that does not have an equity conversion option and the residual amount is allocated to the equity component.

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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, AM 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.

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) Convertible debentures:

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

(n) Changes in accounting policies and disclosures:

Effective January 1, 2017, the Company adopted the amendments to IAS 7, *Statement of Cash Flows.* As a result of applying these amendments, the Company presented new disclosures relating to the changes in financial liabilities arising from financing activities (note 20).

Effective January 1, 2017, the Company also adopted the amendments to IAS 12, *Income Taxes*. The adoption of these amendments did not have an impact on the Company's consolidated financial statements.

(o) 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 new standard also contains disclosure requirements which are more detailed than the current standard. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The Company has performed a preliminary review to assess the impact of this standard. The Company's primary source of revenue is royalty income, which is recognized on an accrual basis as earned. Although the Company will provide additional disclosures regarding its performance obligations, the Company does not anticipate an impact on its revenue recognition policies or cash flows as a result of the adoption of this standard.

3. Significant accounting policies (continued):

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

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 does not anticipate a significant impact on its financial statements as a result of the adoption of this standard.

The IASB issued amendments to IFRS 2, *Share-Based Payments* that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction, the classification of a share-based payment transaction with net settlement features for withholding tax obligations, and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Upon adoption on January 1, 2018, the Company will reclassify $0.2 million related to its restricted share unit obligation from liabilities to contributed surplus. The Company will cease to apply mark-to-market accounting on share-based payment transactions with a net settlement feature for withholding tax obligations.

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. Cash and cash equivalents:

	2017	2016
Cash	$ 1,263	$ 812
Cash equivalents	84,553	74,162
	$ 85,816	$ 74,974

5. Royalty pools:

(a) Mr. Lube:

Pursuant to the terms of the licence and royalty agreement dated August 19, 2015 (the “Mr. Lube Licence and Royalty Agreement”), the royalty paid by Mr. Lube to ML LP is calculated by multiplying the system sales of locations within the Mr. Lube Royalty Pool by an agreed royalty fee (the “Mr. Lube Royalty Rate”, 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)).

5. Royalty pools (continued):

(a) Mr. Lube (continued):

In September 2017, Mr. Lube launched a new tire program. In connection with this incremental line of business, on October 20, 2017, ML LP amended its licence and royalty agreement (the "ML LRA Amendment") with Mr. Lube in respect of this new retail tire program. Mr. Lube is charging a lower royalty fee and waived certain other fees payable by Mr. Lube franchisees on the sale of tires and rims to account for the lower margins on these hard goods. Pursuant to the ML LRA Amendment, ML LP has agreed to charge an effective royalty rate payable on system sales derived from the sale of tires and rims of 2.5% (compared to 6.95% on all other system sales) for the locations currently in the Mr. Lube royalty Pool. The ML LRA Amendment is effective from September 18, 2017.

Royalty income from Mr. Lube for the years ended December 31, 2017 and 2016 was as follows:

Expressed in thousands of Canadian dollars, except for number of locations		2017		2016
Locations in the Mr. Lube Royalty Pool at period end		117		117
Mr. Lube Royalty Pool system sales	$	198,549	$	189,838
Royalty income		13,816		13,237

During the year ended December 31, 2017, royalty income from Mr. Lube includes make-whole payments totaling $0.06 million (2016 - $0.04 million) on lost system sales of $0.8 million (2016 - $0.6 million).

(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 in the Sutton Royalty Pool by the Sutton Royalty Rate. Sutton has the ability, subject to meeting certain performance criteria, to increase the amount of the annual royalty payable to the Company by increasing the number of agents in the Sutton Royalty Pool. The number of agents in the Sutton Royalty Pool may be increased annually, and will never be decreased. The Sutton Royalty Rate will automatically increase by 2% each July 1st beginning in 2016. Sutton will also have the ability, subject to meeting certain performance criteria, to increase the Sutton Royalty Rate in 10.0% increments four times during the life of the royalty (note 8(b)).

Royalty income from Sutton for years ended December 31, 2017 and 2016 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents and the Sutton Royalty Rate		2017		2016
Agents in the Sutton Royalty Pool at period end		5,400		5,400
Sutton Royalty Rate (per agent per month)	$	58.523	$	57.375
Royalty income		3,754		3,608

Effective July 1, 2017, the Sutton Royalty Rate increased from $57.375 per agent to $58.523 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2017. 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.

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.

5. Royalty pools (continued):

(c) AIR MILES:

The royalty paid by LoyaltyOne Co. to AM LP is equal to 1% of the gross billings from the AIR MILES Program in accordance with the terms of the AIR MILES Licenses. Royalty income related to the AIR MILES Program from August 25, 2017 (the date of the AIR MILES Program acquisition) to December 31, 2017 was as follows:

Expressed in thousands of Canadian dollars		2017		2016
Gross billings	$	304,306	$	n / a
Royalty income		3,043		-

(d) 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.

On November 27, 2016, the Company completed the sale of the FW Rights to OJFG. Upon closing the sale of the FW Rights, the previously existing royalty and other commercial arrangements between the Company and Franworks were terminated. 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, 2017 and 2016 was as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants		2017		2016
Franworks Royalty Pool system sales	$	-	$	181,117
Royalty income		-		11,024

6. Royalties and management fees receivable:

		2017		2016
Mr. Lube	$	1,175	$	1,184
Sutton		340		334
AIR MILES		2,493		-
	$	4,008	$	1,518

7. Deferred income taxes:

		2017		2016
Deferred income tax expense	$	4,353	$	7,062
	$	4,353	$	7,062

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:

	2017	2016
Income before income taxes	$ 15,913	$ 17,747
Combined Canadian federal and provincial rates	26%	26%
Expected tax expense	4,137	4,614
Increased (decreased) by:		
Permanent and other non-deductible differences	123	69
Impact of deferred tax rates applied versus current tax rates	92	-
Change in prior year estimates	1	(478)
Deferred taxes on FW Rights transaction	-	2,284
Non-deductible impairment loss	-	573
	$ 4,353	$ 7,062

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

	2017	2016
Deferred tax asset:		
Non-capital losses	$ 2,225	$ 3,479
Financing and share issuance costs	704	1,266
Intangible assets	304	312
Investment tax credits	199	199
Other	16	138
Gross deferred tax asset	3,448	5,394
Deferred tax liability:		
Intangible assets	(5,775)	(3,341)
Convertible debentures	(1,136)	-
Net deferred tax asset (liability)	$ (3,463)	$ 2,053

As at December 31, 2017, the Company has non-capital loss carry forwards of $8.2 million (2016 - $13.4 million), which can be carried forward and applied against future taxable income. Non-capital loss carry forwards expires as summarized in the table below.

2033	$ 5,122
2034	3,120
	$ 8,242

The deferred tax liability as at December 31, 2017 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately $160.4 million (2016 - $115.0 million).

8. Intangible assets:

	FW Rights	SGRS Rights	ML Rights	AIR MILES Program	Total
	(a)	(b)	(c)	(d)	
Balance, January 1, 2016	$ 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
Acquisition of AIR MILES Program	-		-	53,977	53,977
Balance, December 31, 2017	$ -	$ 32,273	$ 139,225	$ 53,977	$ 225,475

(a) FW Rights:

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(d)).

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 would have 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. upon the satisfaction of certain performance criteria. The Class B LP units would have become exchangeable on the contribution of additional Franworks' restaurants into the Franworks Royalty Pool. The Class C and Class D LP units would have 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.

On April 1, 2015, the Franworks Royalty Pool was adjusted to include the royalties from four net new stores ("2015 Franworks Royalty Pool Amendment"). In return for adding these net sales to the Franworks Royalty Pool, Franworks received the right to indirectly acquire common shares of the Company through the exchange of Class B LP units of FW LP. 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 initial consideration was paid in the form of 1,835,728 DIV shares that were issued on April 1, 2015 to 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 was $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 April 1, 2016.

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.

On November 27, 2016, the Company completed the sale of the FW Rights to OJFG for a total fair value of $112.0 million, which consists of: (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.

In connection with the sale of the FW Rights, the Company recorded a non-cash impairment loss of $2.2 million during the year ended December 31, 2016. The recoverable amount of $111.5 million for the FW Rights was determined based on the fair value of the consideration received of $112.0 million, less transaction costs of $0.5 million.

8. Intangible assets (continued):

(b) SGRS Rights:

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

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

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

ML LP licensed the ML Rights back to Mr. Lube for 99 years in exchange for a royalty payment equal to the system sales of the Mr. Lube locations in the Mr. Lube Royalty Pool multiplied by the Mr. Lube Royalty Rate (note 5(a)).

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

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

8. Intangible assets (continued):

(c) ML Rights (continued):

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

During the years ended December 31, 2017 and 2016, there were no additions to the Mr. Lube Royalty Pool.

(d) AIR MILES Rights:

On August 25, 2017, the Company acquired, through AM LP, the AIR MILES Rights from a subsidiary of Aimia for $53.8 million plus additional contingent consideration of up to $13.8 million. The Company funded the payment through cash on hand of $36.4 million and the issuance of $17.4 million in debt. Additionally, $0.2 million in costs incurred for the acquisition of the AIR MILES Program in Canada were capitalized as part of the purchase. The contingent consideration is subject to certain milestones being met in 2018 or 2019. The milestones relate to the renewal of The Bank of Montreal's AIR MILES sponsorship contract, or the replacement of the AIR MILES sponsorship contract with another one of the four other major Canadian chartered banks, as well as the royalty revenue post contract renewal or replacement. The contingent consideration, if any, will be recorded as an expense when paid. In accordance with the terms of the AIR MILES Licenses, AM LP will receive an aggregate royalty, payable quarterly, equal to 1% of gross billings from the AIR MILES Program in Canada in perpetuity.

(e) 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. Subsequent to the most recent annual forecast, revenue is projected to grow at a rate of 2.0% (2016 – 2.0%). These projected cash flows are discounted at pre-tax rates, based on the risks associated with the assets, which range from 12.4% to 18.1% (2016 - 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 SGRS Rights and the AIR MILES Rights at December 31, 2017 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, 2017, the Company has determined that no additional impairment exists.

An impairment loss was recorded in 2016 for the FW Rights intangible asset sold (note 8(a)).

9. Provisions and contingencies:

(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 Company directly or indirectly in respect of any matter.

(b) Insurance underwriter provision:

The Company had 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 had also served a claim against Second City Capital Partners I Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg") and the Company in 2011. The claim alleged 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.

(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.

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.

On March 16, 2018, Sevenson filed a brief in a U.S. court requesting an award of approximately $3.2 million U.S. plus interest. On the same date, the Company filed its own brief requesting summary judgment to dismiss all claims.

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, 2017, 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 + 2.00%	Jun 30, 2022	$ (70)	$ 6,230
ML LP term loan	34,600	BA + 1.95%	Jul 31, 2022	(271)	34,329
AM LP term loan	17,400	BA + 2.25%	Sep 6, 2022	(187)	17,213
	$ 58,300			$ (528)	$ 57,772

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
SGRS LP line of credit	$ 500	BA + 2.00%	Jun 30, 2022	$ -	$ 500
ML LP line of credit	1,000	Prime + 0.25%	Jul 31, 2022	-	1,000
AM LP line of credit	3,000	BA + 2.25%	Sep 6, 2022	-	3,000
	$ 4,500			$ -	$ 4,500

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

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

SGRS LP has a credit agreement that consists of a non-amortizing $6.3 million term loan and a $0.5 million demand operating facility from a Canadian chartered bank. The SGRS LP term loan and line of credit are secured by the SGRS Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement.

On June 20, 2017, SGRS LP amended the terms of its term loan and line of credit agreement to extend the maturity date from June 19, 2018 to June 30, 2022. In addition, the interest rate for the SGRS LP term loan and operating line of credit facilities was decreased to the BA rate plus 2.00%.

The SGRS LP term loan and 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, 2017 and 2016, SGRS LP was in compliance with all financial covenants associated with this facility.

10. Borrowings (continued):

(b) ML LP term loan and line of credit:

ML LP has a credit agreement that consists of a non-amortizing $34.6 million term loan and a $1.0 million demand operating facility from a Canadian chartered bank. The ML LP term loan and line of credit are secured by the ML Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement.

On July 31, 2017, ML LP amended the terms of its term loan and line of credit agreement to extend the maturity date from August 19, 2018 to July 31, 2022. In addition, the interest rate for the ML LP term loan facility was decreased to the BA rate plus 1.95%. The interest rate for the ML LP line of credit facility was decreased to the prime rate plus 0.75%.

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, 2017 and 2016, ML LP was in compliance with all financial covenants associated with this facility.

(c) AM LP term loan and line of credit:

On September 6, 2017, in connection with the acquisition of the AIR MILES Rights, AM LP entered into a credit agreement with a Canadian chartered bank for a senior credit facility that consists of a non-amortizing $17.4 million term loan facility and $3.0 million line of credit. The AM LP term loan and line of credit are secured by the AIR MILES Rights and the royalties payable by LoyaltyOne Co. under the AIR MILES Licenses.

The AM LP term loan and line of credit are subject to certain financial covenants, including a covenant for AM LP to maintain a funded debt to EBITDA ratio of not more than 2.5:1.0. As at December 31, 2017, AM LP was in compliance with all financial covenants.

11. Convertible debentures:

On November 7, 2017, the Company issued convertible unsecured subordinated debentures (“Debentures”) for an aggregate principal amount of $57.5 million at a price of $1,000 per Debenture. The Debentures will mature on December 31, 2022 and will bear interest at an annual rate of 5.25% payable semi-annually in arrears on the last day of December and June in each year, commencing June 30, 2018. At the holder’s option, the Debentures may be converted into common shares of the Company at any time prior to the earlier of: (i) the last business day immediately preceding December 31, 2022; or (ii) the date specified by the Company for redemption of the Debentures. The conversion price will be $4.55 per common share (the “Conversion Price), subject to adjustment in certain circumstances.

The Debentures are not redeemable prior to January 1, 2021, except upon the satisfaction of certain conditions after a change of control has occurred. On or after January 1, 2021 and prior to December 31, 2021, the Debentures may be redeemed in whole or in part from time to time at DIV’s option, provided that the volume weighted average trading price of the common shares on the TSX during the 20 consecutive trading days ending on the fifth trading day preceding the date on which the notice of the redemption is given is not less than 125% of the Conversion Price. On or after December 31, 2021 and prior to the maturity date, DIV may, at its option, redeem the Debentures, in whole or in part, from time to time at par plus accrued and unpaid interest. On redemption or at maturity, the Company will repay the indebtedness of the Debentures by paying an amount equal to the principal amount of the outstanding Debentures, together with accrued and unpaid interest thereon.

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

On November 7, 2017 and December 31, 2017, the face value of the Debentures outstanding was $57.5 million. On initial recognition, the Company valued the liability component at $53.2 million and the equity component at $4.3 million. In addition, the Company incurred transaction costs of $2.8 million, of which $2.6 million was allocated to the liability component and $0.2 million was allocated to the equity component. The net amount recognized as the equity component of the Debentures was $2.9 million, after deferred taxes of $1.2 million and transaction costs of $0.2 million.

11. Convertible debentures (continued):

The following table summarizes the liability value of the Debentures at December 31, 2017:

		2017
Balance, January 1, 2017	$	-
Issuance of Debentures		53,188
Transaction costs		(2,587)
Amortization of deferred financing charges		65
Accretion expense		105
Balance, December 31, 2017	$	50,771

12. Interest rate swaps:

The Company has interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for the SGRS LP and ML LP term loan facilities, as well as 50% of the AM LP term loan facility.

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 the Company has entered into as of December 31, 2017:

	Notional amount	Fixed interest rate	Effective date	Maturity date
SGRS LP	$ 6,300	3.16%	October 19, 2015	June 19, 2018
ML LP	34,600	3.07%	October 14, 2015	August 13, 2018
ML LP	34,600	4.17%	August 13, 2018	July 31, 2022
AM LP	8,700	4.42%	September 6, 2017	August 19, 2022

13. Share capital:

As at December 31, 2017, the authorized share capital of the Company consists of an unlimited number of common shares.

(a) Dividend reinvestment plan:

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

(b) 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.

14. Share-based compensation:

(a) Restricted share units:

The Company has a long-term incentive plan (the "Plan") available to both employees and non-employees as a form of retention and incentive compensation. 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:

	2017		2016	
	Number of RSUs	Weighted average grant-date fair value	Number of RSUs	Weighted average grant-date fair value
Balance, beginning of year	606,016	$ 2.42	433,218	$ 2.50
Granted	609,913	3.36	168,992	2.31
Dividends earned	49,639	2.80	48,856	2.34
Settled	(372,894)	2.43	(45,050)	2.65
Balance, end of year	892,674	$ 3.08	606,016	$ 2.42
Unvested	722,911	$ 3.29	606,016	$ 2.42
Vested	169,763	$ 2.19	-	$ -

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 elected to receive at least 45% of his base salary related to 2016 in RSUs. The RSUs were 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, and as compensation for the services provided during the three months ended December 31, 2016, the Company granted a total of 11,863 RSUs to three directors and 18,725 RSUs to the Company's President and CEO at a weighted average grant date fair value of $2.50 per RSU on March 29, 2017. These RSUs fully vested on March 31, 2017, and were settled on April 3, 2017.

On March 29, 2017, a total of 58,059 RSUs were granted to five directors at a grant date fair value of $2.58 per RSU, which vest in their entirety on April 1, 2020. In addition, in 2017, a total of 21,266 RSUs were issued at a grant date fair value of $2.77 per RSU to certain directors that elected to receive their compensation related to 2017 in the form of RSUs. These RSUs fully vest on April 2, 2018.

On November 23, 2017, the Company granted 500,000 RSUs to the Company's President and CEO at a grant date fair value of $3.53 per RSU, which vest in their entirety on November 23, 2020.

14. Share-based compensation (continued):

(b) Share options:

The following table summarizes the changes in the Company's share options during the years ended December 31, 2017 and 2016:

	2017		2016	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	232,900	$ 1.66	685,500	$ 1.92
Granted	2,300,000	3.26	-	-
Exercised	(51,500)	1.50	(375,600)	2.12
Expired	-	-	(77,000)	2.12
Balance, end of year	2,481,400	$ 3.15	232,900	$ 1.66

The total fair value of the share options granted of $0.9 million during the year ended December 31, 2017 was calculated as of the grant date using the Black-Scholes option pricing model with the following assumptions and inputs:

	2017
Expected life	5 years
Expected volatility	29.3%
Expected dividend yield	6.8%
Risk-free interest rate	1.8%
Weighted average share price	$ 3.26

The following table summarizes information relating to outstanding and exercisable options as at December 31, 2017:

	Options outstanding			Options exercisable	
Exercise prices	Number of options	Weighted average remaining life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$ 1.50 - $ 1.79	181,400	0.59	$ 1.71	181,400	$ 1.71
$ 3.22 - $ 3.53	2,300,000	4.80	3.26	-	-
	2,481,400	4.49	$ 3.15	181,400	$ 1.71

15. Income per share:

	2017	2016
Income for the year	$ 11,560	$ 10,685
Weighted average number of shares outstanding – basic	105,916,177	112,818,984
Dilutive adjustment for share options	93,245	103,450
Dilutive adjustment for RSUs	383,461	306,159
Weighted average number of shares outstanding – diluted	106,392,883	113,228,593
Net income per common share:		
Basic	$ 0.11	$ 0.09
Diluted	$ 0.11	$ 0.09

16. Other finance income (costs), net:

	2017	2016
Finance income	$ 828	$ 101
Foreign exchange gain (loss)	(14)	237
Amortization of deferred financing charges	(193)	(271)
Accretion expense	(105)	-
	$ 516	$ 5

17. 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 convertible debentures of $57.9 million is measured using Level 1 inputs. The fair value of the interest rate swap assets (liabilities) are measured using Level 2 inputs.

17. Financial instruments (continued):

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

	2017	2016
Assets carried at amortized cost:		
Cash and cash equivalents	$ 85,816	$ 74,974
Royalties and management fees receivable	4,008	1,518
Amounts receivable	150	93
	$ 89,974	$ 76,585
Assets carried at fair value:		
Interest rate swap assets	$ 160	$ -
Liabilities carried at amortized cost:		
Accounts payable and accrued liabilities	$ 1,354	$ 592
Long-term bank loans	57,772	40,659
Convertible debentures	50,771	-
	$ 109,897	$ 41,251
Liabilities carried at fair value:		
Restricted share unit obligation	$ 218	$ 434
Interest rate swap liabilities	-	97
	$ 218	$ 531

18. 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.

18. Financial risk management (continued):

(a) Credit risk (continued):

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, 2017 and 2016 were as follows:

	2017	2016
Cash and cash equivalents	$ 85,816	$ 74,974
Royalties and management fees receivable	4,008	1,518
Amounts receivable	150	93
	$ 89,974	$ 76,585

The aging of royalties and management fees receivable, as well as amounts receivable at December 31, 2017 and 2016 were as follows:

	2017	2016
Current	$ 4,118	$ 1,611
Over 30 days	40	-
	$ 4,158	$ 1,611

(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, 2017, the Company had a cash and cash equivalents balance of $85.8 million (2016 - $75.0 million) and positive working capital of $88.5 million (2016 - $75.6 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	2018	2019	2020	2021	Thereafter
Accounts payable and accrued liabilities	$ 1,354	$ 1,354	$ 1,354	$ -	$ -	$ -	$ -
Long-term bank loans[1]	57,772	68,946	2,107	2,354	2,354	2,354	59,777
Convertible debentures	50,771	72,594	3,019	3,019	3,019	3,019	60,519
Total contractual obligations	$109,897	$ 142,894	$ 6,480	$ 5,373	$ 5,373	$ 5,373	$ 120,296

(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.

18. 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 year ended December 31, 2016, 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		2017		2016
Cash and cash equivalents	$	293	$	188
Net exposure in thousands of U.S. dollars	$	293	$	188

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and comprehensive income and loss by a nominal amount as at December 31, 2017 and 2016.

(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, 2017, interest rate risk was mitigated by interest rate swap arrangements on $49.6 million of $58.3 million of the Company's term loan facilities. As at December 31, 2016, interest rate risk is mitigated by interest rate swap arrangements that fix the interest rates on all of the Company's floating rate term loan facilities.

Based on the balance outstanding on December 31, 2017, a one percentage point increase (decrease) in the interest rate would increase (decrease) interest expense by a nominal amount. 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.

(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.

19. Related party transactions:

In addition to information disclosed elsewhere in these consolidated financial statements, the Company had the following related party transactions during the years ended December 31, 2017 and 2016:

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:

		2017		2016
Short-term benefits	$	1,473	$	961
Share-based compensation		975		747
	$	2,448	$	1,708

During the year ended December 31, 2017, the Company paid fees of $0.6 million (2016 – $0.4 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, 2017, the Company paid Maxam approximately $0.1 million (2016 - $0.1 million).

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.

20. Supplemental cash flow information:

The following table reconciles the movements in liabilities to cash flows arising from financing activities:

		Long-term debt (note 10)		Debentures (note 11)		Total
Balance, December 31, 2016	$	40,659	$	-	$	40,659
Changes from financing cash flows:						
Proceeds from issuance of debt		17,400		57,500		74,900
Debt financing and prepayment fees		(415)		(2,798)		(3,213)
Liability-related other changes:						
Equity component of debentures		-		(4,101)		(4,101)
Amortization of deferred financing charges		128		65		193
Accretion expense		-		105		105
Balance, December 31, 2017	$	57,772	$	50,771	$	108,543