Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and nine months ended September 30, 2014 and 2013
(Unaudited)

DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Financial Position
(Unaudited)
(Expressed in Canadian dollars)

	September 30, 2014	December 31, 2013
Assets		
Current assets:		
Cash and cash equivalents (note 5)	$ 4,409,039	$ 68,999,809
Restricted cash	-	12,042
Amounts receivable (note 6)	5,454,178	392,598
Prepaid expenses and other	190,801	137,340
	10,054,018	69,541,789
Deferred income tax asset (note 7)	9,474,089	-
Intangible assets, Franworks Rights (note 8)	108,755,000	-
	$128,283,107	$ 69,541,789
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,680,536	$ 407,074
Current tax liabilities	-	57,881
Provisions (note 9)	613,666	615,112
Promissory note (note 10(c))	5,150,000	-
Current portion of long-term liability (note 11)	79,000	79,000
	7,523,202	1,159,067
Long-term liability (note 11)	535,645	574,057
Long-term bank loan, net of financing fees (note 10(a))	14,804,972	-
Shareholders' equity:		
Share capital (note 12)	82,075,530	97,155,660
Contributed surplus	8,209,663	8,664,249
Retained earnings (accumulated deficit)	15,134,095	(38,011,244)
Total equity	105,419,288	67,808,665
	$128,283,107	$ 69,541,789

Contingencies (note 9)
Subsequent events (note 20)

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Operations and Comprehensive Loss
(Unaudited)
(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Royalty Income	$ 168,613	$ -	$ 168,613	$ -
Expenses:				
Operating costs	-	-	-	466,718
Administration and business development (note 15)	852,526	1,123,132	2,542,210	2,721,644
Proxy contest costs (recovery)	(63,287)	-	271,854	-
Transactional costs	592,375	-	1,492,465	-
Amortization	-	3,491	-	137,356
Loss on disposal of assets held for sale and related restructuring costs	-	8,824	-	559,674
	1,381,614	1,135,447	4,306,529	3,885,392
Loss from operating activities	(1,213,001)	(1,135,447)	(4,137,916)	(3,885,392)
Finance income (note 16)	196,889	279,788	683,519	746,281
Finance costs (note 16)	(25,211)	(11,038)	(75,027)	(19,692)
Loss before income taxes	(1,041,323)	(866,697)	(3,529,424)	(3,158,803)
Income tax recovery (expense) (note 7)	9,474,088	-	9,519,103	95,500
Net income (loss) and comprehensive income (loss) for the period	$ 8,432,765	$ (866,697)	$ 5,989,679	$ (3,063,303)
Basic income (loss) per share	$ 0.21	$ (0.02)	$ 0.15	$ (0.08)
Diluted income (loss) per share	0.21	(0.02)	0.15	(0.08)

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Changes in Equity
(Unaudited)
(Expressed in Canadian dollars)

For the nine months ended September 30, 2014 and 2013

	Share capital	Contributed surplus	Accumulated deficit	Total equity
Balance at January 1, 2013	$ 96,969,879	$ 8,414,394	$ (34,424,782)	$ 70,959,491
Comprehensive loss for the period	-	-	(3,063,303)	(3,063,303)
Share-based compensation (note 13)	-	320,554	-	320,554
Share options exercised	185,781	(163,381)	-	22,400
Balance at September 30, 2013	$ 97,155,660	$ 8,571,567	$ (37,488,085)	$ 68,239,142

	Share capital	Contributed surplus	Retained earnings (accumulated deficit)	Total equity
Balance at January 1, 2014	$ 97,155,660	$ 8,664,249	$ (38,011,244)	$ 67,808,665
Reduction in stated capital (note 12)	(47,155,660)	-	47,155,660	-
Comprehensive income for the period	-	-	5,989,679	5,989,679
Share-based compensation (note 13)	-	219,614	-	219,614
Equity issued in private placement and acquisition of Franworks Rights (note 12)	29,382,030	-	-	29.382,030
Share options exercised	2,693,500	(674,200)	-	2,019,300
Balance at September 30, 2014	$ 82,075,530	$ 8,209,663	$ 15,134,095	$ 105,419,288

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

Condensed Consolidated Interim Statements of Cash Flows
(Unaudited)
(Expressed in Canadian dollars)

For the nine months ended September 30

	2014	2013
Cash flows provided by (used in):		
Cash flows used in operating activities:		
Net income (loss) for the period	$ 5,989,679	$ (3,063,303)
Adjustments for:		
Amortization	-	137,356
Loss on disposal of assets held for sale	-	302,174
Unwinding of discount on provision	18,121	7,345
Share-based compensation	222,331	320,554
Income tax recovery	-	(95,500)
Changes in non-cash operating items:		
Amounts receivable	(5,061,580)	1,622,650
Prepaid expenses and other	(53,461)	269,800
Deferred taxes	(9,474,089)	-
Deferred costs	-	40,224
Accounts payable and accrued liabilities	1,273,462	(1,204,891)
Promissory note	5,150,000	-
Provisions	(1,446)	358,421
Current tax liabilities	(57,881)	8,266
Repayment of long-term liability	(59,250)	(59,250)
Net cash used in operating activities	(2,054,114)	(1,356,154)
Cash flows from (used in) investing activities:		
Additions to assets held for sale	-	(23,100)
Purchase of intangible assets, Franworks Rights	(88,072,970)	-
Net proceeds on disposal of assets held for sale	-	7,203,595
Change in restricted cash	12,042	501,011
Net cash provided by investing activities	(88,060,928)	7,501,506
Cash flows from (used in) financing activities:		
Payment of finance lease liabilities	-	(32,642)
Proceeds from equity issuance	8,700,000	-
Issuance of long-term debt	14,804,972	-
Proceeds from exercise of share options	2,019,300	22,400
Net cash used in financing activities	25,524,272	(10,242)
Net increase (decrease) in cash and cash equivalents	(64,590,770)	6,135,110
Cash and cash equivalents at beginning of period	68,999,809	63,856,221
Cash and cash equivalents at end of period	$ 4,409,039	$ 69,991,331

See accompanying notes to interim condensed consolidated financial statements.

Diversified Royalty Corp., (“DIV”), formerly BENEV Capital Inc. and prior to that Bennett Environmental Inc., is a company domiciled in Canada and was incorporated on July 29, 1992 under the Canada Business Corporation Act. The interim condensed consolidated financial statements of DIV as at and for the three-month and nine-month periods ended September 30, 2014 and 2013 are composed of DIV and its subsidiaries (together referred to as the “Company”).

1. Nature of operations:

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

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

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

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

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IAS 34, *Interim Financial Reporting*. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2013.

(b) Use of estimates and judgments:

Significant estimates and judgments made by management in the application of IFRS that have a significant effect on the amounts recognized in these condensed consolidated interim financial statements in addition to those described in the annual consolidated financial statements for the year ended December 31, 2013 are as follows:

(*i*) Intangible assets (note 8):

DIV carries the FW Rights at historical cost comprising the amount of consideration paid for the FW Rights.

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

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

The Company does not assign any value to the Exchangeable Partnership Units as they do not currently meet the relevant criteria for exchange into common shares of DIV.

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the same accounting principles and policies as the annual financial statements for the year ended December 31, 2013 except for the adoption of new IFRS accounting standards and for the adoption of policies specific to the Franworks Acquisition, as outlined below.

(a) Basis of consolidation:

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

(b) Revenue recognition:

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

(c) Intangible assets:

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

(d) Distributions to DIV shareholders:

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

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

3. Significant accounting policies (continued):

(e) Borrowings:

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

(f) Restricted stock units:

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

(g) Impairment of non-financial assets:

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

Intangible assets are tested for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units or "CGU's"). The Company defines a CGU as the FW Rights. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the CGU). In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount.

(h) Economic dependence:

The Company is predominantly dependent upon the operations and assets of Franworks to pay the royalty and make-whole payments to the LP. Accordingly, it is subject to the risks encountered by Franworks in the operation of its business.

3. Significant accounting policies (continued):

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

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

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

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

(j) Amendments to IAS 36 - Recoverable Amount Disclosures for Non-Financial Assets.

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

(k) IFRIC 21 - Levies.

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

(Expressed in Canadian dollars)

4. Royalty pool:

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

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

There were no make-whole payment in the current period.

Royalty income for the three and nine month periods ended September 30, 2014 and 2013 was calculated as follows:

	2014	2013
Restaurants in the Royalty Pool	78	-
Royalty Pool system sales	$ 2,810,217	$ -
Royalty income at 6% of system sales reported above	168,613	-

The Franworks Acquisition occurred on September 26, 2014, therefore current period system sales are only for the 5 day period between September 26, 2014 and September 30, 2014. Prior period amounts are nil.

(Expressed in Canadian dollars)

5. Cash and cash equivalents:

	September 30, 2014	December 31, 2013
Bank balances	$ 4,409,039	$ 105,388
Short-term deposits	-	68,894,421
	$ 4,409,039	$ 68,999,809

6. Amounts receivable:

	September 30, 2014	December 31, 2013
GST and QST receivable	$ 5,171,482	$ 2,781
Royalty receivable from Franworks (includes GST)	177,044	-
Insurance proceeds (note 9(c))	100,098	380,342
Payroll source deductions recoverable	5,554	9,475
	$ 5,454,178	$ 392,598

7. Deferred Income Taxes:

Upon closing the Franworks Acquisition, the Company recognized a net deferred tax asset of $9,474,089, comprised of a gross deferred tax asset of $9,796,871 less a deferred tax liability of $322,781. This deferred tax asset primarily relates to the company's non-capital losses in excess of $30 million. Given the anticipated monthly royalty income to be received from Franworks, the Company expects to be able to utilize these non-capital losses over the next few years, and as such, has recognized this asset on the balance sheet.

8. Intangible assets:

On September 26, 2014, the Company acquired the FW Rights from a wholly owned subsidiary of Franworks for $108,755,000 of which $88,072,970 was paid in cash and $20,682,030 was paid by the issuance of 8,992,187 common shares of the Company. Concurrent with the acquisition of the FW Rights, the Company granted Franworks' wholly owned subsidiary a license to use the FW Rights for a period of 99 years. As consideration, Franworks pays the Company a royalty of six percent of system sales reported by Franworks restaurants included in the Royalty Pool (note 4).

(Expressed in Canadian dollars)

9. Provisions and contingencies:

	Claim by Consultant	John Bennett Indemnity Claim	Liability to Insurance Underwriter	Total
	(a)	(b)	(c)	
Balance at January 1, 2013	$ 100,000	$ 25,974	$ -	$ 125,974
Provisions made during the period	-	503,670	380,342	884,012
Provisions used during the period	-	(395,587)	-	(395,587)
Change in foreign exchange rate	-	713	-	713
Balance at December 31, 2013	100,000	134,770	380,342	615,112
Provisions made during the period	-	-	-	-
Provisions used during the period	-	(25,370)	-	(25,370)
Change in foreign exchange rate	-	3,470	20,454	23,924
Balance at September 30, 2014	$ 100,000	$ 112,870	$ 400,796	$ 613,666

(a) Claim by consultant:

During 2005, the Company was served with a claim in the amount of $5,000,000 by a consultant retained by the founder and former CEO claiming breach of contract. The claim was submitted to arbitration and $145,000 was recorded as an expense in 2005 as the Company's estimate of its obligation under the arbitrator's decision. Upon appeal by the consultant, the arbitrator's decision was overturned with the Company being liable for additional amounts estimated to be $315,000 which were expensed in 2007. In 2008, a payment of $374,091 was made, including recoverable input tax credits of $18,900 and interest of $40,191 leaving an accrual of $100,000 as of September 30, 2014 representing the Company's estimate of costs related to the claim. The Company believes that it has adequately provided for and expensed amounts related to this claim.

(b) John Bennett indemnity claim:

In 2010, John Bennett brought an Application to the Ontario Superior Court ("Court") to compel the Company to reimburse him for the legal costs he may incur in connection with his indictment to face charges in the U.S. for alleged payment of kickbacks and other illegal activities while he was CEO of the Company. The Company believed it was not required to indemnify Mr. Bennett for the expenses and served a Motion Record seeking to stay the former director's Application pending a resolution of the criminal proceedings against him. He served a cross-motion seeking interim relief. The Court heard both of these motions in 2010 and subsequently dismissed the Company's motion resulting in the Court issuing an Interim Order requiring the Company to reimburse Mr. Bennett for legal costs incurred after August 30, 2009. In late 2010, the Application was converted to an action. Statements of Claim and Defence were exchanged in 2012.

9. Provisions and contingencies (continued):

(b) John Bennett indemnity claim (continued):

The Company has provided for Mr. Bennett's legal costs estimated to be incurred and reimbursable to him at the end of the current reporting period. The cost to the Company in respect of his future legal expenses will be recorded when these expenses are known and the amounts reimbursable to him can be reasonably estimated.

The Company had not been able to successfully dispute Mr. Bennett's preceding indemnity claims due to the unavailability of key witnesses and other constraints. These constraints have been removed and the Company has filed a motion which seeks to have the Interim Order set aside, and the action dismissed. If successful, this will deny Mr. Bennett future indemnification payments and require the repayment of all sums advanced under the Interim Order. The outcome of these proceedings cannot be determined at this time.

On October 30, 2014, the Supreme Court of Canada dismissed Mr. Bennett's application for leave to appeal an order of the British Columbia Court of Appeal ordering his extradition to the United States to stand trial for conspiracy to defraud and major fraud against the United States.

In October 2013, the Company brought a motion to the Ontario Superior Court (Commercial List) to set aside or suspend a December 29, 2010 interim order which required the reimbursement of Mr. Bennett's criminal defence expenses by the Company, pending a final determination of his entitlement to indemnification. In March 2014, Mr. Bennett served a cross-motion to strike the Company's motion and to require the Company to continue to reimburse his legal defence costs pending trial. In September 2014, both the motion and the cross-motion were scheduled for a hearing on December 19, 2014. On October 30, 2014, after Mr. Bennett lost his application for leave to appeal to the Supreme Court of Canada, his counsel requested the Company pay a US$2.5 million retainer to cover the criminal defence costs of his trial in New Jersey. On the 3rd of November, Mr. Bennett's counsel served an amended cross-motion record seeking this relief. On November 4, 2014, the Commercial List advanced the date for the hearing to November 26, 2014.

9. Provisions and contingencies (continued):

(b) John Bennett indemnity claim (continued):

While the Company intends to strenuously resist this motion, it is possible that the Company may be ordered to pay up to US$2.5 million to cover Mr. Bennett's criminal lawyer's retainer, and that the advance of this retainer may not be funded by the Company's insurance. The Company has sufficient funds available for such purposes, if ordered. If Mr. Bennett were to be acquitted on the criminal charges in New Jersey, the Company expects that its insurer would refund Mr. Bennett's legal costs. If the Company is required to advance such funds to Mr. Bennett's criminal defence lawyer to otherwise continue to fund Mr. Bennett's criminal defence costs and Mr. Bennett is found guilty of the criminal charges in New Jersey, the Company would not be entitled to reimbursement from its insurer of any amounts advanced to Mr. Bennett or his counsel. Although the Company would have a right to seek reimbursement from Mr. Bennett for such amounts, the Company's ability to collect such amounts from Mr. Bennett may be limited to the $0.6 million tenure agreement long-term liability to Mr. Bennett (see note 11).

(c) Liability to insurance underwriter:

The Company expects to receive reimbursement from its insurance underwriter in the amount of approximately $100,098 (year ended December 31, 2013 – $380,342) for Mr. Bennett's legal expenses incurred in connection with his indictment as described in section (b) of this note. This expected reimbursement has been recorded as amounts receivable as described in note 6. Under its funding agreement with the underwriter, the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Mr. Bennett is found guilty. The Company has adequately provided for the estimated liability that may result from this requirement.

(d) Additional claims involving Mr. Bennett:

The Company has filed a claim against Mr. John Bennett for $10,340,550. The claim alleges that he was directly or indirectly responsible for the illegal payments that resulted in the Company pleading guilty to conspiracy to commit fraud. In addition to seeking to recover these illegal payments, the associated fines and legal fees, the claim seeks to recover bonuses which were inappropriately paid and punitive damages. The claim had been stayed, with the consent of both parties, until June 2013 when Mr. Bennett withdrew his consent to the stay in order to serve the Company with a statement of defence and counterclaim in the amount of $30 million. The Company brought a motion with regard to the counterclaim and on April 9 2014, the Superior Court Ordered that the counterclaim be struck, without leave to amend. Costs of $16,000 were also awarded to the Company. On May 6, 2014, Mr. Bennett filed an appeal to the April 9th Order in the Ontario Court of Appeal. On September 15, 2014 the Ontario Court of Appeal upheld the Order of the Superior Court that the counterclaim be struck without leave to amend. In addition, the court granted $6,600 in costs in favour of the Company in addition to the $16,000 previously awarded.

9. Provisions and contingencies (continued):

(d) Additional claims involving Mr. Bennett (continued):

Mr. Bennett has also served a claim against Second City Capital Partners I, Limited Partnership ("Second City"), Samuel Belzberg ("Belzberg") and the Company. The claim alleges that 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. Management believes there is no basis for making this allegation against the Company. Accordingly the Company has made no provision in respect of this matter.

(e) Environmental Protection Agency:

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

(f) Claim by U.S. contractor:

During the second quarter of 2008, a prime contractor on a U.S. Federal Government project ("Project") filed a complaint against the Company in a U.S. court. The complaint also names a director and officer, an officer and a senior manager, all of whom are no longer with the Company. The complaint alleges these three individuals colluded with an employee of the prime contractor relating to, among other things, the awarding of the Project during the years 2002 through 2004. On a joint and several basis, the complaint seeks approximately $1.1 million U.S. plus the value of additional gratuities. The majority of the counts within the complaint seek damages on a joint and several basis from multiple defendants, including the Company. During the first quarter of 2009, the Court stayed all proceedings in this matter pending the conclusion of the Antitrust Division of the United States Department of Justice investigation into the same matter. Management intends to defend against this claim vigorously if the current stay is lifted. 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:

(a) Term bank loan:

On September 26, 2014, concurrent with the Franworks Acquisition, the LP borrowed $15,000,000 from a banking syndicate. The facility bears interest at published three-month Canadian dollar Banker’s Acceptance Rate (the ”BA Rate”) plus 4.15% per annum, requires monthly interest only payments and is secured by a general security agreement over the assets of the LP, an assignment of the royalty earned under the License and Royalty Agreement and a guarantee from the Company. The maturity date of the facility is September 26, 2017. The facility is subject to certain financial covenants, including a covenant to maintain a funded debt to EBITDA ratio of not more than 1.6:1.0. As at September 30, 2014, the Company and the LP are in compliance with all financial covenants associated with this facility.

The term loan is presented net of $195,028 in deferred financing charges at September 30, 2014.

(b) Operating line of credit:

On September 26, 2014, concurrent with the Franworks Acquisition, the LP obtained a $2,000,000 demand operating facility from a banking syndicate. This facility bears interest at BA Rate plus 4.50% and is secured by a general security agreement over the assets of the LP, an assignment of the royalty earned under the License and Royalty Agreement and a guarantee from the Company. As at September 30, 2014, the entire $2,000,000 remains available for use.

(c) Promissory note:

The Promissory note owing to Franworks is equal to the GST paid on the Franworks Acquisition. Franworks financed this GST on behalf of the Company. The note bears interest at 5.25% and is repayable upon the earlier of (i) such time as the Company receives its goods and services tax rebate or a notice that no such rebate will be available to the Company or (ii) March 26, 2015.

(Expressed in Canadian dollars)

11. Long-term liability:

Long-term liability consists of a tenure agreement between the Company and Mr. Bennett as well as employee restricted stock unit ("RSU") obligation to the Company's CEO.

Balance January 1, 2013	$	737,881
Paid during 2013		(79,000)
Adjustment to and unwinding of discount		(5,824)
		653,057
Less current portion		(79,000)
Balance December 31, 2013	$	574,057
Balance January 1, 2014	$	653,057
Paid during first nine months of 2014		(59,250)
Adjustment to and unwinding of discount		18,121
		611,928
Add: employee restricted stock unit obligation		2,717
Less current portion		(79,000)
Balance September 30, 2014	$	535,645

The tenure payments are made on a monthly basis in the amount of $6,583 ($79,000 annually). The tenure agreement expires on December 31, 2022. The carrying value of the liability is the present value of the future payments discounted by an assumed rate of 1.53% based upon the current long-term Canadian bond rate which is reviewed and updated annually as required.

12. Share capital:

At September 30, 2014 the authorized share capital of the Company consists of an unlimited number of common shares.

The issued share capital of the Company is as follows:

	Common shares		Amount
Balance December 31, 2013	38,778,897	$	97,155,660
Reduction in stated capital	-		(47,155,660)
Shares issued in private placement	5,240,964		8,700,000
Shares issued for in connection acquisition of FW Rights	8,992,187		20,682,030
Shares issued pursuant to options exercised	1,143,125		2,693,500
Balance September 30, 2014	54,155,173	$	82,075,530

(Expressed in Canadian dollars)

12. Share capital (continued):

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

13. Share-based payment:

The Company has a share option plan (the "Plan") where the maximum number of common shares issued under the Plan will be 10% of the issued and outstanding common shares at the time of grant. The Plan provides for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock at the grant date. Stock options are granted to both employees and non-employees. The Company's Board of Directors has discretion as to the number of stock options granted, as well as in determining the vesting period and expiry dates.

During the three and nine months ended September 30, 2014, the Company issued nil stock options (year ended December 31, 2013 - 1,784,400). During the three and nine months ended September 30, 2014, the Company issued 250,000 RSU's (year ended December 31, 2013 - nil).

The following table summarizes information relating to outstanding and exercisable options at September 30, 2014:

	Options outstanding			Options exercisable	
Exercise prices	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price per share	Number exercisable	Weighted average exercise price per share
$ 1.50	154,500	3.75	$ 1.50	154,500	$ 1.50
$ 1.79	129,900	3.88	1.79	129,900	1.79
$ 2.12	421,100	1.83	2.12	421,100	2.12
	705,500		$ 1.92	705,500	$ 1.92

During the three and nine months ended September 30, 2014, total stock compensation expense was $39,991 and $222,331, respectively (three and nine months ended September 30, 2013 - 262,765 and $320,554, respectively).

(Expressed in Canadian dollars)

14. Income (Loss) per share:

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

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Income (loss) for the period	$ 8,432,765	$ (866,697)	$ 5,989,679	$ (3,063,303)
Net (loss) income per common share:				
Basic	0.21	(0.02)	0.15	(0.08)
Diluted	0.21	(0.02)	0.15	(0.08)
Weighted average number of shares:				
Basic	39,459,496	38,778,897	39,459,496	38,725,905
Diluted	39,594,730	38,778,897	39,523,481	38,725,905

15. Administrative and business development expenses:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September30, 2013
Wages and benefits	$ 233,359	$ 253,843	$ 657,528	$ 873,931
Share-based compensation	39,991	262,765	222,331	320,554
Services agreement costs (note 16)	91,875	-	269,792	-
Occupancy costs	-	1,226	29,491	169,909
Goods and services	21,094	94,102	345,911	469,619
Professional services	466,207	511,196	1,017,157	887,631
	$ 852,526	$ 1,123,132	$ 2,542,210	$ 2,721,644

Services agreement costs became effective January 1, 2014 pursuant to a services agreement with Maxam whereby Maxam provides accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Corporation.

Goods and services include insurance, advertising, vehicle expenses, general repairs and maintenance costs and other costs.

Professional fees include legal, audit, accounting and consulting services.

(Expressed in Canadian dollars)

16. Finance income and finance costs:

	Three months ended		Nine months ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Interest income on cash and cash equivalents	$ 196,889	$ 279,788	$ 683,519	$ 746,281
Interest expense on financial liabilities measured at fair value through profit	(13,143)	(12,869)	(16,861)	(15,273)
Loan application fee	-	-	(25,000)	-
Adjustment to and unwinding of discount on financial liabilities	(2,385)	(2,389)	(18,121)	(7,345)
Net foreign exchange gain (loss)	(9,683)	4,220	(15,045)	2,926
Finance costs	(25,211)	(11,038)	(75,027)	(19,692)
Net finance income	$ 171,678	$ 268,750	$ 608,492	$ 726,589

17. Determination of fair values:

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Share-based payment transactions:

The fair value of employee share options is measured using the Black-Scholes formula. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends, and the risk-free interest rate (based on government bonds). Service and non-market performance conditions attached to the transactions are not taken into account in determining fair value.

18. Financial risk management:

The Company has exposure to the following risks from its use of financial instruments: credit risk, market risk and liquidity 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 condensed consolidated interim financial statements.

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

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

(a) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's amounts due from Franworks. The Company monitors this risk through its regular review of the operating and financing activities of Franworks. The Company's maximum exposure to credit risk is the value of its royalty fee receivable from Franworks. There are no past-due amounts.

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

Credit risk also arises from cash balances on deposit with financial institutions of $4,409,039 at September 30, 2014 (December 31, 2013 - $68,999,809). The Company has placed its cash balances with a Canadian chartered bank of high creditworthiness.

(Expressed in Canadian dollars)

18. Financial risk management (continued):

(b) Amounts receivable:

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

As outlined in note 6(c), substantially all of the amounts receivable are due from Canada Revenue Agency (with respect to GST) and from Company's insurance underwriter with respect to the indemnification of Mr. John Bennett for legal costs incurred in connection with the U.S. Department of Justice anti-trust investigation.

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

(c) Exposure to credit risk:

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

	Carrying amount	
	September 30, 2014	December 31, 2013
Cash and cash equivalents	$ 4,409,039	$ 68,999,809
Restricted cash	-	12,042
Amounts receivable	5,454,178	392,598
	$ 9,863,217	$ 69,404,449

The aging of amounts receivable at the reporting date was:

	Carrying amount	
	September 30, 2014	December 31, 2013
Current	$ 5,454,178	$ 392,598
31-90 days	-	-
Over 90 days	-	-
	5,454,178	392,598
Allowance for doubtful accounts	-	-
Total amounts receivable	$ 5,454,178	$ 392,598

18. Financial risk management (continued):

(d) Liquidity risk:

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity risk is to monitor consolidated cash flow to ensure that there will always be sufficient liquidity to meet liabilities when due.

At September 30, 2014, the Company has a cash and cash equivalents balance of $4,409,039 (December 31, 2013 - $68,999,809) and positive working capital of $2,530,816 (December 31, 2013 - $68,382,722). Management believes the Company has sufficient cash resources to meet amounts due.

The Company has the following borrowings outstanding at September 30, 2014 and December 31, 2013:

	September 30, 2014	December 31, 2013
Promissory note owing to Franworks	$ 5,150,000	$ -
Long-term bank loan	14,804,972	-
Total borrowings	$ 19,954,972	$ -

The Long-term bank loan is described in note 10(a) and the promissory note is described in note 10(c).

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

Millions of Canadian dollars	Carrying amount	Contractual cash flow	2014	2015	2016	2017	2018	Thereafter
Tenure agreement	$ 0.61	$ 0.65	$ 0.02	$ 0.08	$ 0.08	$ 0.08	$ 0.08	$ 0.31
Accounts payable and accrued liabilities	1.68	1.68	1.68	-	-	-	-	-
Promissory note	5.15	5.15	5.15	-	-	-	-	-
Long-term bank loan	14.80	17.40	0.20	0.80	0.80	15.60	-	-
Total contractual obligations	$ 22.24	$ 24.88	$ 7.05	$ 0.88	$ 0.88	$ 15.68	$ 0.08	$ 0.31

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

18. Financial risk management (continued):

(e) Market risk:

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

The Company does not utilize financial instruments for speculative purposes. As at September 30, 2014 the Company had no foreign exchange contracts.

(f) Currency risk:

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

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

	Expressed in US $	
	September 30, 2014	December 31, 2013
Cash, restricted cash and cash equivalents	$ 7,670	$ 4,737
Amounts receivable	89,309	357,598
Accounts payable and accrued liabilities	(418,279)	(442,583)
Net exposure in U.S. dollars	$ (321,300)	$ (80,248)

(g) Sensitivity analysis:

A 10% strengthening (weakening) of the Canadian dollar against the U.S. dollar would have increased (decreased) equity and profit and loss by approximately $32,000 as at September 30, 2014. A similar strengthening (weakening) as at December 31, 2013 would have increased (decreased) equity and profit and loss by approximately $8,000.

(h) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market rates. The Company's exposure to interest rate risk mainly arises from the long-term bank loan as it is subject to floating market rates of interest. Based on the balance outstanding on September 30, 2014, a one percent point increase (decrease) in the interest rate on the bank loan would increase (decrease) interest expense by approximately $150,000 per annum (December 31, 2013 - $690,000 increase (decrease) in interest income due to significant short term investments and no bank loan).

18. Financial risk management (continued):

(i) Capital management:

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

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

In order to maintain or adjust the capital structure, the Company may purchase shares for cancellation pursuant to normal course issuer bids, issue new shares or warrants, and issue new debt.

The Company's approach to capital management changed during the period pursuant to the closing of the Franworks Acquisition. The Company used up the majority of its cash balances on the Franworks Acquisition.

19. Related parties:

Transactions with key management personnel:

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

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

The Company's President and CEO is also the founder and managing partner of Maxam Capital Corp ("Maxam"). The Company entered into a services agreement (the "Services Agreement") with Maxam whereby Maxam provided, effective as of January 1, 2014, accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Company. Pursuant to the Services Agreement, the Corporation paid Maxam a monthly service fee of approximately $30,000 plus reasonable out of pocket expenses. Effective September 29, 2014, this Services Agreement was terminated, and a new services agreement with Maxam was entered into whereby the CFO services were removed and the monthly service fee was reduced to approximately $9,000 per month.

On September 29, 2014 the Company's CFO entered into a consulting services agreement with the Company, pursuant to which, his holding company will provide his services as interim CFO to the Company for a period of three months, in return for a monthly fee of $12,500.

(Expressed in Canadian dollars)

19. Related parties (continued):

On September 29, 2014, the Company has agreed to a services agreement with the Company's CEO's holding company (the "CEO Agreement"), pursuant to which, his holding company will provide his services as CEO to the Company in return for an annual service fee of $200,000 per annum until September 2015, and $287,500 per annum for the first two years thereafter, subject to adjustments. In addition, the CEO Agreement provides for payment of an incentive bonus based upon increases in the Company's aggregate cash dividends, the grant of 250,000 RSU's (as mentioned in note 13), and a lump sum signing bonus of $125,000.

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

At September 30, 2014, Franworks is considered to be a related party of the Company by virtue of common directors of Franworks and the Company. The following is a summary of the balances due to and due from Franworks:

	September 30, 2014	December 31, 2013
Royalty fee receivable from Franworks, including GST	$ 177,044	$ -

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

	September 30, 2014	December 31, 2013
Promissory note payable to Franworks	$ 5,150,000	$ -

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. Subsequent events:

(a) Equity issuance:

On November 12, 2014, the Company issued 14,375,000 common shares at a price of $2.40 per common share for gross proceeds of $34,500,000 (the "Offering") in connection with an underwriting agreement (the "Underwriting Agreement") dated October 20, 2014, between the Company and a syndicate of underwriters (the "Underwriters"). The Offering includes the full exercise of an over-allotment option by the Underwriters, under which the Underwriters purchased an aggregate of 1,875,000 common shares at a price of $2.40 per common share.

The Company intends to use the net proceeds from the Offering to fund future acquisitions of additional top-line royalties from other well-managed multi-location businesses and franchisors, and for general corporate purposes.