Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and six months ended June 30, 2015 and 2014
(Unaudited)

DIVERSIFIED ROYALTY CORP.

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

	June 30, 2015	December 31, 2014
Assets		
Current assets:		
Cash and cash equivalents	$ 6,720,412	$ 34,510,514
Royalties and management fees receivable from Franworks and Sutton (note 4)	1,314,033	1,062,224
Amounts receivable (note 5)	1,601,910	434,564
Prepaid expenses and other	271,757	125,975
	9,908,112	36,133,277
Deferred income tax asset (note 6)	8,908,730	10,328,049
Intangible assets, Franworks and Sutton Rights (note 7)	144,889,795	108,755,000
	$ 163,706,637	$ 155,216,326
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 724,589	$ 615,626
Provisions (note 8)	1,758,872	1,499,040
Restricted share unit obligations	-	60,847
Promissory note (note 10(c))	1,530,000	-
Current portion of long-term liability (note 9)	79,000	79,000
	4,092,461	2,254,513
Long-term liability (note 9)	492,666	519,986
Long-term bank loans, net of deferred financing charges (note 10)	21,052,065	14,804,733
Shareholders' equity:		
Share capital (note 11)	119,951,570	115,013,462
Contributed surplus	8,398,023	8,209,663
Retained earnings	9,719,852	14,413,969
	138,069,445	137,637,094
	$ 163,706,637	$ 155,216,326

Nature of operations (note 1)
Contingencies (note 8)
Subsequent event (note 17)

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

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

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Royalty income	$ 3,532,359	$ -	$ 6,448,131	$ -
Management fees	3,059	-	3,059	-
	3,535,418	-	6,451,190	-
Expenses:				
Salaries and benefits	148,729	183,275	326,719	431,532
Share-based compensation	73,231	91,674	127,516	182,340
General and administration (note 14)	193,039	348,374	332,343	556,298
Professional fees (note 15)	102,418	643,501	187,542	677,056
Litigation (note 8)	1,214,355	215,886	1,908,587	260,446
Proxy contest costs	-	335,141	-	335,141
Acquisition costs	-	437,090	-	437,090
	1,731,772	2,254,941	2,882,707	2,879,903
Income (loss) from operations	1,803,646	(2,254,941)	3,568,483	(2,879,903)
Finance income (note 16)	59,040	242,809	171,707	486,630
Finance costs (note 16)	(184,884)	(41,968)	(450,841)	(49,816)
Income (loss) before income taxes	1,677,802	(2,054,100)	3,289,349	(2,443,089)
Income tax expense (note 6)	997,916	-	1,419,318	-
Net income (loss) and comprehensive income (loss) for the period	$ 679,886	$(2,054,100)	$ 1,870,031	$(2,443,089)
Basic income (loss) per share	$ 0.01	$ (0.05)	$ 0.03	$ (0.06)
Diluted income (loss) per share	0.01	(0.05)	0.03	(0.06)

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 six months ended June 30, 2015 and 2014

2015	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2015	$ 115,013,462	$ 8,209,663	$ 14,413,969	$ 137,637,094
Comprehensive income for the period	-	-	1,870,031	1,870,031
Dividends declared for the period	-	-	(6,564,148)	(6,564,148)
Common shares issued in connection with April 1, 2015 for new store roll-in	4,938,108	-	-	4,938,108
Stock-based compensation	-	188,360	-	188,360
Balance, June 30, 2015	$119,951,570	$ 8,398,023	$ 9,719,852	$ 138,069,445

2014	Share capital	Contributed surplus	Retained earnings (accumulated deficit)	Total equity
Balance, January 1, 2014	$ 97,155,660	$ 8,664,249	$ (38,011,244)	$ 67,808,665
Comprehensive (loss) income for the period	-	-	(2,443,089)	(2,443,089)
Share-based compensation (note 12)	-	182,340	-	182,340
Balance, June 30, 2014	$ 97,155,660	$ 8,846,589	$ (40,444,333)	$ 65,547,916

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 six months ended June 30, 2015 and 2014

	2015	2014
Cash flows provided by (used in):		
Cash flows from (used in) operating activities:		
Net income (loss) for the period	$ 1,870,031	$ (2,443,089)
Adjustments for:		
Dividends declared but not paid	(21,617)	-
Unwinding of discount on provision	12,180	15,736
Amortization of deferred financing charges	34,477	-
Share-based compensation	127,514	182,340
Changes in non-cash operating items:		
Royalties and management fees receivable	(251,809)	-
Amounts receivable	(1,167,346)	288,748
Prepaid expenses and other	(145,782)	105,750
Accounts payable and accrued liabilities	108,963	1,032,579
Provisions	259,832	(23,698)
Promissory note	1,530,000	-
Deferred income taxes	1,419,318	(57,881)
Repayment of long-term liability	(39,500)	(39,500)
Net cash provided by (used in) operating activities	3,736,261	(939,015)
Cash flows used in financing activities:		
Proceeds from issuance of debt, net of deferred financing fees	6,212,855	-
Payment of dividends	(6,542,531)	-
Net cash provided from financing activities	(329,676)	-
Cash flows from investing activities:		
Purchase of intangible assets	(31,196,687)	-
Change in restricted cash	-	12,042
Net cash used in financing activities	(31,196,687)	12,042
Net decrease in cash and cash equivalents	(27,790,102)	(926,973)
Cash and cash equivalents, beginning of period	34,510,514	68,999,809
Cash and cash equivalents, end of period	$ 6,720,412	$ 68,072,836
Non-cash transaction:		
Increase in intangible assets on Royalty Pool new store roll-ins	$ 4,938,108	$ -

See accompanying notes to condensed consolidated interim financial statements.

Diversified Royalty Corp., (“DIV”), formerly BENEV Capital Inc. and prior to that Bennett Environmental Inc., is a company domiciled in Canada and was incorporated on July 29, 1992 under the Canada Business Corporation Act. The consolidated financial statements of DIV as at and for the three and six months ended June 30, 2015 are composed of DIV and its subsidiaries (together referred to as the “Company”).

1. Nature of operations:

The current business of DIV is to acquire top-line royalties from well-managed multi-location businesses in North America. As described in note 7, 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”) for $108,755,000. On June 19, 2015, the Company completed its second royalty acquisition, whereby it indirectly acquired (the “Sutton Acquisition”), through SGRS Royalties Limited Partnership (the “Sutton Partnership”) (an entity controlled by the Company), all of the Canadian and U.S. trademarks and certain other intellectual property rights utilized by Sutton Group Realty Services Ltd. (“Sutton”) in its residential real estate franchise business (the “Sutton Rights”).

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

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

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, 2014.

2. Basis of preparation (continued):

(b) Basis of measurement:

These financial statements have been prepared on the historical cost basis except for the tenure liability, which is measured at fair value.

The preparation of financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. In preparing these condensed consolidated interim financial statements, the significant areas requiring management estimates are the same as described in the Company's annual financial statements for the year ended December 31, 2014.

(c) Functional and presentation currency:

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

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, 2014.

These condensed consolidated interim financial statements were authorized and approved for issue by the Company's Board of Directors on August 6, 2015.

(a) Financial instruments:

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

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

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

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

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

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

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

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

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

The fair value of the tenure benefits are measured using level 2 inputs being the current long-term Canadian bond rate.

(Expressed in Canadian dollars)

3. Significant accounting policies (continued):

(a) Financial instruments (continued):

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

	June 30, 2015	December 31, 2014
Assets carried at amortized cost:		
Loans and receivables:		
Cash and cash equivalents	$ 6,720,412	$ 34,510,514
Royalties and management fees and amounts receivable	2,915,944	1,496,788
	$ 9,636,356	$ 36,007,302
Liabilities carried at amortized cost:		
Accounts payable and accrued liabilities	$ 724,589	$ 615,626
Promissory note payable	1,530,000	-
Long-term bank loan	21,052,065	14,804,733
	$ 23,306,654	$ 15,420,359
Liabilities carried at fair value:		
Tenure benefits	$ 571,666	$ 598,986

(b) Comparative information:

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

(Expressed in Canadian dollars)

4. Royalty pool:

	June 30, 2015	December 31, 2014
Royalties and management fees receivable:		
Franworks	$ 1,191,537	$ 1,062,224
Sutton	122,496	-
	$ 1,314,033	$ 1,062,224

(a) Franworks:

The royalty payment from Franworks to FW Royalties Limited Partnership (“FW LP”), an entity controlled by the Company is 6% of system sales for such period reported by Franworks for the Franworks restaurants in the Franworks royalty pool (the “Franworks Royalty Pool”) plus a make-whole payment, if required by a restaurant closure, based on 6% of lost system sales. System sales for any period and for any Franworks restaurant located in Canada and the United States, means the gross sales by such Franworks restaurant for such period.

Annually on April 1, the Franworks Royalty Pool is adjusted to include gross sales from new Franworks restaurants that have been open for at least 365 days prior to April 1, less gross sales from Franworks restaurants that have permanently closed during the preceding calendar year (note 7(a)).

There were three make-whole payments during the three-month period ended June 30, 2015 totaling $54,678 (on lost system sales of $911,307) related to renovations. For the six month period ended June 30, 2015, there were four make-whole payments totaling $155,017 (on lost system sales of $2,583,615) related to renovations.

Royalty income for the six months ended June 30, 2015 and 2014 was calculated as follows:

	June 30, 2015	June 30, 2014
Restaurants in the Franworks Royalty Pool	82	-
Franworks Royalty Pool system sales	$ 105,524,467	$ -
Royalty income at 6% of system sales reported above	6,331,468	-

The Franworks Acquisition was completed on September 26, 2014; therefore, there were no system sales for the six months ended June 30, 2014.

(Expressed in Canadian dollars)

4. Royalty pool (continued):

(b) Sutton:

Pursuant to the terms of the licence and royalty agreement dated June 19, 2015 between the Sutton Partnership and Sutton (the "Sutton Licence and Royalty Agreement"), the royalty paid by Sutton to the Sutton Partnership is calculated by multiplying a determined number of agents (the "Sutton Royalty Pool", initially set at 5,185 agents) by an agreed royalty fee (the "Sutton Royalty Rate", initially set at $56.25 per agent per month). Sutton has the ability, subject to meeting certain performance criteria, to increase the amount of the annual royalty payable to the Sutton Partnership 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% increments four times during the life of the royalty (note 7(b)).

Royalty income for the six months ended June 30, 2015 and 2014 was calculated as follows:

	June 30, 2015	June 30, 2014
Agents in the Sutton Royalty Pool	5,185	-
Sutton Royalty Rate (per agent per month)	$ 56.25	$ -
Royalty income calculated as agents in the Sutton Royalty Pool x Sutton Royalty Rate x number of months	116,663	-

The Sutton Acquisition was completed on June 19, 2015; therefore, there were no system sales for the six months ended June 30, 2014. The six months ended June 30, 2015 include royalty income from Sutton for the 12 day period from, and including, the date of the completion of the Sutton Acquisition to June 30, 2015.

5. Amounts receivable:

	June 30, 2015	December 31, 2014
GST receivable	$ 1,490,178	$ -
Insurance proceeds (note 8(b))	111,405	434,236
Payroll source deductions recoverable and other	327	328
	$ 1,601,910	$ 434,564

GST receivable includes $1,530,000 paid on the Sutton Acquisition (note 10(c)).

(Expressed in Canadian dollars)

6. Deferred income taxes:

The Company's net deferred tax asset of $8,908,730 is comprised of a gross deferred tax asset of $9,650,094 less a deferred tax liability of $741,364. This deferred tax asset primarily relates to the Company's non-capital losses of approximately $32.5 million. Given the anticipated monthly royalty income to be received from Franworks and Sutton, the Company expects to be able to utilize these non-capital losses during the carry forward period, and as such, recognized this asset on the balance sheet during 2014.

7. Intangible assets:

Balance, January 1, 2014	$ -
Acquisition of FW Rights during the period	108,755,000
Balance, December 31, 2014	108,755,000
Roll-in of new restaurants during the period	4,938,108
Acquisition of Sutton Rights during the period	31,196,687
Balance, June 30, 2015	$ 144,889,795

(a) Franworks:

On September 26, 2014, the Company acquired the FW Rights from Fanworks' wholly owned subsidiary, Original Joe's Franchise Group Inc. ("OJFG"), 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. At closing of the Franworks Acquisition, FW LP issued 100,000,000 Class B, Class C, and Class D LP Units to OJFG. These units will become exchangeable into common shares of the Company through the exchange agreement dated September 26, 2014 among OJFG, the Company and FW Royaltyies GP Inc. (the "Franworks Exchange Agreement") upon satisfaction of certain criteria. The Class B LP Units become exchangeable on the contribution of additional Franworks' restaurants into the Franworks Royalty Pool. The Class C LP Units and Class D LP Units become exchangeable on the increase in royalty rate from 6% to 7% and from 7% to 8%, respectively. Concurrent with the acquisition of the FW Rights, the Company granted OJFG a license to use the FW Rights for a period of 99 years. As consideration, Franworks, through OJFG, pays the Company a royalty of 6% of system sales reported by Franworks restaurants included in the Franworks Royalty Pool pursuant to the terms of the licence and royalty agreement dated September 26, 2014 between ML LP and OJFG (the "Franworks Licence and Royalty Agreement") (note 4(a)).

7. Intangible assets (continued):

(a) Franworks (continued):

Annually on April 1, the Franworks 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 Franworks Royalty Pool, Franworks receives the right to indirectly acquire common shares of the Company through the exchange of Class B LP Units of FW LP (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net tax-adjusted royalty revenue added to the Franworks Royalty Pool, divided by the yield of the Company's shares, divided by the weighted average share price of the Company's shares. Franworks receives 80% of the estimated Additional Entitlement initially, with the balance received on April 1 of the subsequent year when the actual full year performance of the new restaurants is known with certainty. The Additional Entitlement is automatically exchanged by Franworks into common shares of DIV pursuant to the Franworks Exchange Agreement.

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

The initial consideration for the estimated net additional royalty revenue is approximately $4,938,108 representing 80% of the total estimated consideration of $6,173,000 payable to Franworks for such additional royalty revenue. The adjustment for net additional royalty revenue added to the Franworks Royalty Pool is designed to be accretive to DIV shareholders, as the consideration paid to Franworks is calculated using a 7.5% discount of the estimated net royalty revenue added to the Franworks Royalty Pool. The consideration is paid in the form of DIV shares on the basis of the 20-day volume weighted average closing price of DIV's shares for the period ending March 25, 2015. Based on a weighted average closing price of $2.69 per share, the initial consideration payable for the net additional royalty revenue was paid to Franworks in the form of 1,835,728 DIV shares which were issued on April 1, 2015 to OJFG. As a result of these new store roll-ins, intangible assets and share capital for the three months ended June 30, 2015 increased by $4,938,108.

7. Intangible assets (continued):

(b) Sutton:

On June 19, 2015, the Company acquired, through the Sutton Partnership, the Sutton Rights for a purchase price of $30,600,000, which was paid through $30,599,995 in cash (satisfied by $24,299,995 in cash and the issuance of $6,300,000 in debt) and the issuance of 100,000,000 Class A, B, C, D and E Limited Partnership Units for a nominal consideration of $5. Additionally, $596,687 in costs incurred for the acquisition of the Sutton Rights were capitalized as part of the purchase. Immediately following the closing of the Sutton Acquisition, the Company, through the Sutton Partnership, licenced the Sutton Rights back to Sutton for 99 years in exchange for an initial royalty payment of approximately $3.5 million per annum.

Following the completion of the Sutton Acquisition, the Company now owns all of the ordinary limited partnership units (8,379,310) of the Sutton Partnership. At closing of the Sutton Acquisition, the Sutton Partnership 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 (the "Sutton Exchange Agreement") upon satisfaction of certain performance criteria. The Class A LP Units become exchangeable 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.

In addition to the royalty, Sutton will pay the Company a management fee of approximately $100,000 per year for strategic and other services. The management fee will be increased by 10% every five years.

(Expressed in Canadian dollars)

8. Provisions and contingencies:

	John Bennett Indemnity Claim	Liability to Insurance Underwriter	Other	Total
	(a)	(b)		
Balance, January 1, 2014	$ 134,770	$ 380,342	$ 100,000	$ 615,112
Provisions made during the period	538,307	330,629	-	868,936
Provisions used during the period	(25,370)	-	-	(25,370)
Change in foreign exchange rate	5,855	34,507	-	40,362
Balance, December 31, 2014	653,562	745,478	100,000	1,499,040
Provisions made during the period	1,400,410	490,971	-	1,891,381
Provisions used during the period	(1,692,944)	-	-	(1,692,944)
Change in foreign exchange rate	5,297	56,098	-	61,395
Balance, June 30, 2015	$ 366,325	$ 1,292,547	$ 100,000	$ 1,758,872

The liability to the insurance underwriter shown above is partially offset by $111,405 of insurance proceeds receivable (Note 5).

(a) John Bennett indemnity claim:

John Bennett ("Bennett"), founder and CEO of the Company until early 2004, is charged with conspiracy to defraud and major fraud against the United States between 2001 and mid-2004.

The Company and two former vice presidents (both of whom left the Company in 2004) have pleaded guilty to this same conspiracy against the United States.

Bennett was extradited to the United States in November 2014 and is expected to be tried in February 2016. The Company has been ordered by the courts to reimburse Bennett for the reasonable legal costs he has incurred and will incur in connection with his criminal defense.

The Company has accrued for Bennett's legal costs incurred and reimbursable to him as at June 30, 2015. 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.

8. Provisions and contingencies (continued):

(a) John Bennett indemnity claim (continued):

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

(b) Liability to insurance underwriter:

The Company expects to receive reimbursement from its insurance underwriter for Bennett's legal expenses incurred in connection with his criminal defense through 2014 and year-to-date through 2015, as described in section (a) of this note. The amount outstanding as of June 30, 2015 related to this reimbursement was $111,405 (December 31, 2014 - $434,236). This expected reimbursement has been recorded as amounts receivable as described in note 5. Under its funding agreement with the underwriter, as noted above in note 8(a), the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Bennett is found guilty. The Company has cash resources available to settle the estimated liability that may result from this requirement.

(c) Additional claims involving Mr. Bennett:

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

(d) Claim by U.S. contractor:

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

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

(Expressed in Canadian dollars)

8. Provisions and contingencies (continued):

(d) Claim by U.S. contractor (continued):

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

Counsel for the Company have brought a motion to dismiss the third amended complaint for failure to plead enough facts to state a claim for relief that is plausible on its face. Success of this motion is not determinable at this time. If successful, the complaint will be dismissed as against the Company. If the Company is not successful on the motion, management intends to defend against this claim vigorously.

Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

9. Long-term liability:

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

Balance January 1, 2015	$	598,986
Paid during first 6 months of 2015		(39,500)
Adjustment to and unwinding of discount		12,180
		571,666
Less current portion		(79,000)
Balance June 30, 2015	$	492,666

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 0.95% based upon the current long-term Canadian bond rate which is reviewed and updated regularly as required.

(Expressed in Canadian dollars)

10. Borrowings:

	June 30, 2015	December 31, 2014
Long-term bank loans, net of deferred financing charges:		
Franworks (a)(i)	$ 14,837,750	$ 14,804,733
Sutton (b)(i)	6,214,315	-
	$ 21,052,065	$ 14,804,733

(a) Franworks:

(i) Long-term bank loan:

On September 26, 2014, concurrent with the Franworks Acquisition, FW LP borrowed $15,000,000 from a banking syndicate (the "FW Term Loan"). The FW Term Loan 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 FW LP, an assignment of the royalty earned under the Franworks License and Royalty Agreement and a guarantee from the Company. The maturity date of the FW Term Loan is September 26, 2017. The FW Term Loan is subject to certain financial covenants, including a covenant to maintain a funded debt to normalized EBITDA ratio of not more than 1.6:1.0. As at June 30, 2015, the Company and FW LP are in compliance with all financial covenants associated with this facility.

The FW Term Loan is presented net of $162,250 in deferred financing charges at June 30, 2015.

(ii) Operating line of credit:

On September 26, 2014, concurrent with the Franworks Acquisition, FW LP obtained a $2,000,000 demand operating facility from a banking syndicate. This facility bears interest at BA Rate plus 4.50% and is secured by a general security agreement over the assets of FW LP, an assignment of the royalty earned under the Franworks License and Royalty Agreement and a guarantee from the Company. As at June 30, 2015, the entire $2,000,000 remains available for use.

(b) Sutton:

(i) Long-term bank loan:

On June 19, 2015, concurrent with the Sutton Acquisition, the SGRS Partnership borrowed $6,300,000 from a Canadian chartered bank (the "SGRS Term Loan"). The SGRS Term Loan has a term of 36 months, is non-amortizing, and bears interest at a rate equal to published bankers' acceptance rates in Canada plus 2.25% (currently equivalent to approximately 3.25%). The SGRS Term Loan requires monthly only interest payments and

10. Borrowings (continued):

(b) Sutton (continued):

(i) Long-term bank loan (continued):

the maturity date of the facility is June 19, 2018. The SGRS Term Loan is secured by the Sutton Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement. It has debt covenants usual for this type of credit facility, including a covenant to maintain EBITDA for the trailing twelve month period of at least $2,880,000. As at June 30, 2015, the Company and the Sutton Partnership are in compliance with all financial covenants associated with this facility.

The term loan is presented net of $85,685 in deferred financing charges at June 30, 2015.

(ii) Operating line of credit:

On June 19, 2015, concurrent with the Sutton Acquisition, the Sutton Partnership obtained a $500,000 demand operating facility from a Canadian chartered bank. This facility bears interest at BA Rate plus 2.45% and is secured by the SGRS Rights and the royalties payable by Sutton Group under the Sutton Licence and Royalty Agreement. As at June 30, 2015, the entire $500,000 remains available for use.

(c) Promissory note:

The promissory note issued by the Sutton Partnership to Sutton at closing of the Sutton Acquisition was issued with a principal amount equal to the GST paid on the Sutton Acquisition. Sutton financed this GST on behalf of the Sutton Partnership. The promissory note bears interest at 5% per annum, compounded annually and is repayable upon the earlier of (i) the six month anniversary of the closing date of the Sutton Acquisition or (ii) the third business day following the receipt by the Sutton Partnership of a refund in respect of Goods and Services Tax payable under the *Excise Tax Act* (Canada) in respect of the acquisition of the Sutton Rights by the Sutton Partnership at closing of the Sutton Acquisition.

(Expressed in Canadian dollars)

11. Share capital:

At June 30, 2015 the authorized share capital of the Company consists of an unlimited number of common shares.

The issued share capital of the Company is as follows:

	Common shares	Amount
Balance December 31, 2014	68,530,173	$ 115,013,462
Common shares issued in connection with April 1, 2015 new store roll-in (note 4(a))	1,835,728	4,938,108
Balance June 30, 2015	70,365,901	$ 119,951,570

12. Share-based payment:

During the year ended December 31, 2014, the Company introduced a restricted share unit ("RSU") plan available to both employees and non-employees as part of the Company's long-term incentive plan (the "Plan") where the maximum number of common shares issued under the Plan will be 10% of the issued and outstanding common shares of the Company at the time of grant. The Company issued 250,000 restricted share units to the President and CEO during the year ended December 31, 2014 (year ended December 31, 2013 - nil) at a grant date fair value of $2.35 totaling $587,000. These RSUs vest in their entirety on December 31, 2017. During the three and six months ended

June 30, 2015, a total of 32,418 RSUs were granted collectively to three directors, at a grant date fair value of $2.78 totaling $90,000, effective April 21, 2015 (three and six months ended June 30, 2014 – nil). The RSUs issued to the three directors vest in their entirety on April 1, 2018.

During the period ended June 30, 2015, the CEO's RSU plan was amended such that RSU's will be stock settled vs. cash settled (as was previously the case). This amendment resulted in consistent treatment with the settlement of RSU's granted to the directors. As such, all of the RSU's are to be stock settled. This has led to a change in accounting treatment, whereby all RSU's are now expensed and charged through shareholders' equity as opposed to recorded as a liability, as was the case with the RSUs, which were cash settled under the previous treatment for the CEO.

(Expressed in Canadian dollars)

12. Share-based payment (continued):

Prior to the acquisition of the FW Rights, the Company had a share option plan where the maximum number of common shares issued under the Plan was 10% of the issued and outstanding common shares of the Company at the time of grant. The Plan provided for the granting of options for the purchase of common shares of the Company at the fair market value of the Company's stock at the grant date. Stock options were granted to both employees and non-employees. During the three and six months ended June 30, 2015, the Company issued nil stock options (three and six months ended June 30, 2014 - nil). During the year ended December 31, 2014 the share option plan was replaced by the Plan described above. Options issued under the share option plan prior to the introduction of the Plan remain outstanding.

The following table summarizes information relating to outstanding and exercisable options at June 30, 2015:

		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	3.01	$ 1.50	154,500	$ 1.50
$ 1.79	129,900	3.13	1.79	129,900	1.79
$ 2.12	421,100	1.18	2.12	421,100	2.12
	705,500		$ 1.92	705,500	$ 1.92

The options outstanding at June 30, 2015 have an exercise price in the range of $1.50 to $2.12 (2014 - $1.50 to $2.12) and a weighted contractual life of 1.94 years (2014 – 3.26 years).

13. Income (loss) per share:

	Three months ended June 30, 2015	Three months ended June 30, 2014	Six months ended June 30, 2015	Six months ended June 30, 2014
Income (loss) for the period	$ 679,886	$ (2,054,100)	$ 1,870,031	$ (2,443,089)
Net (loss) income per common share:				
Basic	0.01	(0.05)	0.03	(0.06)
Diluted	0.01	(0.05)	0.03	(0.06)
Weighted average number of shares:				
Basic	70,365,901	38,778,897	69,448,037	38,778,897
Diluted	70,590,194	38,819,190	69,654,639	38,872,922

(Expressed in Canadian dollars)

14. General and administrative expenses:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Rent, supplies and administrative services	$ 28,876	$ 45,490	$ 57,749	$ 162,535
Insurance	63,645	10,186	126,633	73,076
Exchange and filing fees	86,956	60,840	119,192	69,087
Other	13,562	231,858	28,769	251,600
	$ 193,039	$ 348,374	$ 332,343	$ 556,298

Rent, supplies and administrative services for the three and six months ended June 30, 2015 entirely related to a services agreement with Maxam Capital Corp. (three and six months ended June 30, 2014 – $28,875 and $57,750, respectively). This agreement became effective January 1, 2014 whereby Maxam provided accounting, tax and public company compliance services, head office and infrastructure services and transaction support services to the Company for approximately $29,000 per month. The agreement was amended on October 1, 2014 and now only includes rent and administrative services for approximately $9,000 per month.

15. Professional fees:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Legal	$ 63,208	$ 605,916	$ 121,772	$ 606,266
Audit and Tax	39,210	37,585	65,770	70,790
	$ 102,418	$ 643,501	$ 187,542	$ 677,056

(Expressed in Canadian dollars)

16. Finance income and finance costs:

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Interest income on cash and cash equivalents	$ 59,040	$ 242,809	$ 171,708	$ 486,630
Finance income	$ 59,040	$ 242,809	$ 171,708	$ 486,630
Interest expense on financial liabilities, net of amortization of deferred financing fees	$ 215,745	$ 1,208	$ 430,563	$ 3,719
Loan application fee	-	25,000	-	25,000
Adjustment to and unwinding of discount on financial liabilities	(2,739)	12,660	12,179	15,376
Foreign exchange (gain) loss	(28,122)	3,100	8,099	5,721
Finance costs	$ 184,884	$ 41,968	$ 450,841	$ 49,816

17. Subsequent event:

Mr. Lube Trademark Acquisition and Royalty and Bought Deal Financing:

On July 23, 2015, the Company announced its third trademark and royalty acquisition. The Company has entered into an agreement with Mr. Lube Canada Limited Partnership (“Mr. Lube”) to acquire, through its subsidiary ML Royalties Limited Partnership (“ML LP”) (an entity controlled by the Company), the trademarks and certain other intellectual property rights utilized by Mr Lube in its business of franchising automotive maintenance businesses (the “Mr Lube Marks”) for $138.8 million (the “Mr. Lube Acquisition”). Immediately following the closing of the Mr. Lube Acquisition, ML LP will license the Mr. Lube Marks back to Mr Lube for 99 years, in exchange for an initial royalty payment of approximately $12.4 million per annum (the “Royalty” and together with the Mr. Lube Acquisition, the “Transaction”). In addition to the Royalty, Mr. Lube will pay DIV a management fee of approximately $200,000 per year for strategic and other services. The management fee will be increased at a rate of 2% per annum over the term of the license and royalty agreement.

In connection with the Mr. Lube Acquisition, the Company has entered into an agreement with a syndicate of investment dealers (the “Underwriters”) pursuant to which the Underwriters have agreed to purchase for resale to the public on a bought deal basis 40,741,000 subscription receipts of the Corporation (the “Subscription Receipts”), at a price of $2.70 per Subscription Receipt for gross proceeds of $110,000,700 (the “Offering”). In addition, the Company has granted the Underwriters an option (the “Over-Allotment Option”) to purchase up to an additional 6,111,150 Subscription Receipts (or, in certain circumstances, common shares of the Company) at the price of $2.70 per Subscription Receipt exercisable in whole or in part at any time until the earlier of (i) 30 days following the closing of the Offering, and (ii) the termination of the Mr. Lube Acquisition.

17. Subsequent event (continued):

Mr. Lube Trademark Acquisition and Royalty and Bought Deal Financing (continued):

Upon completion of certain release conditions, including, among others, obtaining all necessary corporate and regulatory approvals as well as satisfaction of all conditions precedent to the Mr. Lube Acquisition, the Subscription Receipts will be exchanged for Common Shares of the Company on a one-for-one basis.

The total net proceeds from the sale of the Subscription Receipts under this Offering are estimated to be approximately $103,660,665 (or approximately $119,335,765 if the Over-Allotment Option is exercised in full) after deducting the Underwriters' Fees of $5,500,035 (or $6,325,040 if the Over-Allotment Option is exercised in full) and the expenses of the Offering, estimated at $840,000.

The Company intends to use the net proceeds of the Offering to partially fund the acquisition of the Mr. Lube Marks and, if the Over-Allotment Option is exercised in whole or in part, for future acquisitions and general corporate purposes. The remainder of the cash consideration payable to Mr. Lube upon completion of the Mr. Lube Acquisition will be satisfied through a $34.4 million term loan ($34.6 million gross, net of $0.2 million of deferred financing fees) and approximately $850,000 in cash on hand. At least 50% of the debt provided under the ML LP Debt Financing will have a fixed interest rate (currently estimated at 3.55%) while the remainder can be a floating interest rate (currently estimated to be the BA rate plus 2.5%). The credit facility will be secured by the Mr. Lube Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement, and will have covenants usual for this type of credit facility. The Mr. Lube LP Debt Financing will also be guaranteed by the Company on a limited recourse basis through the pledge by the Company of its interest in Mr. Lube LP.

Completion of the Transaction is subject to a number of conditions, including approval of the TSX, completion of the $34.6 million senior credit facility, completion of the Offering, as well as other conditions customary for a transaction of this nature.

Closing of the Offering is expected to occur on or about August 18, 2015 and is subject to regulatory approval, including that of the TSX.