Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three months ended March 31, 2017

(Unaudited)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102 “Continuous Disclosure Obligations”, if an auditor has not performed a review of the interim financial statements, the financial statements must be accompanied by a notice indicating that they have not been reviewed by an auditor.

The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared by and are the responsibility of the Company’s management.

The Company’s independent auditor has not performed a review of these financial statements in accordance with standards established by CPA (Chartered Professional Accountants) Canada for a review of interim financial statements by an entity’s auditor.

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

	Note	March 31, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents	4	$ 72,772	$ 74,974
Royalties and management fees receivable	6	1,559	1,518
Amounts receivable		82	93
Prepaid expenses and other		101	87
		74,514	76,672
Deferred income tax asset	7	1,182	2,053
Intangible assets		171,498	171,498
		$ 247,194	$ 250,223
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 498	$ 592
Restricted share unit obligation	11	489	434
		987	1,026
Long-term bank loans, net of deferred financing charges	9	40,695	40,659
Interest rate swap liabilities	10	101	97
Shareholders' equity:			
Share capital		178,677	178,256
Contributed surplus		25,268	25,161
Retained earnings		1,466	5,024
		205,411	208,441
		$ 247,194	$ 250,223

Nature of operations (note 1)
Contingencies (note 8)

See accompanying notes to condensed consolidated interim financial statements.

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

	Note		Three months ended March 31, 2017		2016
Royalty income	5	$	4,072	$	6,914
Management fees			76		75
			4,148		6,989
Expenses					
Salaries and benefits			350		306
Share-based compensation	11		162		119
General and administration			149		118
Professional fees			53		64
Litigation	8		47		3,331
			761		3,938
Income from operations			3,387		3,051
Interest expense on credit facilities			(363)		(554)
Other finance income, net	13		164		306
Fair value adjustment on interest rate swaps	10		(4)		(4)
Income before income taxes			3,184		2,799
Income tax expense	7		871		754
Net income and comprehensive income		$	2,313	$	2,045
Basic weighted average number of shares outstanding			105,535,496		113,115,086
Diluted weighted average number of shares outstanding			106,231,432		113,196,883
Basic income per share	12	$	0.02	$	0.02
Diluted income per share	12	$	0.02	$	0.02

See accompanying notes to condensed consolidated interim financial statements.

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

	Common shares	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2017	105,481,136	$ 178,256	$ 25,161	$ 5,024	$ 208,441
Common shares issued on DRIP	167,993	421	-	-	421
Share-based compensation	-	-	107	-	107
Dividends declared	-	-	-	(5,871)	(5,871)
Comprehensive income	-	-	-	2,313	2,313
Balance, March 31, 2017	105,649,129	$ 178,677	$ 25,268	$ 1,466	$ 205,411

	Common shares	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2016	113,065,496	$ 230,357	$ 8,542	$ 2,618	$ 241,517
Common shares issued on DRIP	141,953	301	-	-	301
Share-based compensation	-	-	119	-	119
Dividends declared	-	-	-	(6,292)	(6,292)
Dividends payable to OJFG	-	-	-	(63)	(63)
Comprehensive income	-	-	-	2,045	2,045
Balance, March 31, 2016	113,207,449	$ 230,658	$ 8,661	$ (1,692)	$ 237,627

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

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

	Three months ended March 31, 2017	2016
Cash flows from (used in) operating activities:		
Net income for the period	$ 2,313	$ 2,045
Adjustments for:		
Share-based compensation	162	119
Fair value adjustments on interest rate swaps	4	4
Interest expense on credit facilities	363	554
Other finance costs (income), net	(164)	(306)
Foreign exchange gain (loss)	(1)	352
Deferred income taxes	871	754
Changes in non-cash operating items:		
Royalties and management fees receivable	(41)	(322)
Amounts receivable	11	(1,646)
Prepaid expenses and other	(14)	(19)
Accounts payable and accrued liabilities	(94)	(44)
Provisions	-	2,612
Interest paid	(363)	(554)
Interest received	201	7
Net cash provided by operating activities	3,248	3,556
Cash flows used in financing activities:		
Payment of dividends	(5,450)	(5,991)
Net cash used in financing activities	(5,450)	(5,991)
Net decrease in cash and cash equivalents	(2,202)	(2,435)
Cash and cash equivalents, beginning of period	74,974	8,889
Cash and cash equivalents, end of period	$ 72,772	$ 6,454

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 incorporated on July 29, 1992 under the Canada Business Corporation Act. The condensed consolidated interim financial statements of DIV as at and for the three months ended March 31, 2017 are composed of DIV and its subsidiaries (together referred to as the "Company"). The Company's common shares are listed on the Toronto Stock Exchange ("TSX") and traded under the symbol "DIV". The registered office of the Company is located at 902-510 Burrard Street, Vancouver, BC, V6C 3A8.

1. Nature of operations:

The current business of DIV is to acquire royalties from well-managed multi-location businesses and franchisors in North America ("Royalty Partners").

On June 19, 2015, the Company indirectly acquired, through SGRS Royalties Limited Partnership ("SGRS LP") (an entity controlled by the Company), all of the Canadian and U.S. trademarks and certain other intellectual property rights utilized by Sutton Group Realty Services Ltd. ("Sutton") in its residential real estate franchise business (the "SGRS Rights"). The Company granted Sutton the licence to use the SGRS Rights for a term ending on December 31, 2114 in exchange for a royalty payment initially equal to $56.25 per agent per month (the "Sutton Royalty Rate") for the number of agents included in the royalty pool (the "Sutton Royalty Pool"). Effective July 1, 2016, the Sutton Royalty Rate was increased to $57.375 per agent per month.

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

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

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34, *Interim Financial Reporting*. Certain information and note disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been omitted or condensed. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016.

These condensed consolidated financial statements were authorized and approved for issue by the Company's Board of Directors on May 11, 2017.

(b) Basis of measurement:

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

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The critical judgments and key estimates and assumptions are the same as described in the Company's annual financial statements for the year ended December 31, 2016.

(c) Functional and presentation currency:

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

(Tabular amounts expressed in thousands of Canadian dollars)

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the same accounting policies as the annual financial statements for the year ended December 31, 2016, except as described below.

(a) Changes in accounting policies and disclosures:

Effective January 1, 2017, the Company adopted the amendments to IAS 7, *Statement of Cash Flows,* and IAS 12, *Income Taxes.* The adoption of these amendments did not have a material impact on the Company's consolidated financial statements.

(b) New standards applicable in future periods:

In May 2014, the International Accounting Standards Board ("IASB") issued IFRS 15, *Revenue from Contracts with Customers*, which will replace IAS 18, *Revenue*. The standard contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognized. New estimates and judgmental thresholds have been introduced, which may affect the amount and/or timing of revenue recognized. The mandatory effective date of IFRS 15 is for annual periods beginning on or after January 1, 2018. The Company is currently evaluating the impact of IFRS 15 on its consolidated financial statements.

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

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

4. Cash and cash equivalents:

		March 31, 2017		December 31, 2016
Cash	$	703	$	812
Cash equivalents		72,069		74,162
	$	72,772	$	74,974

5. Royalty pools:

(a) Mr. Lube:

Royalty income from Mr. Lube for the three months ended March 31, 2017 and 2016 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of locations	Three months ended March 31, 2017	2016
Locations in the Mr. Lube Royalty Pool at period end	117	117
Mr. Lube Royalty Pool system sales	$ 45,028	$ 44,539
Royalty income	3,143	3,097

During the three months ended March 31, 2017, royalty income from Mr. Lube includes make-whole payments totaling $0.01 million (2016 - $nil) on lost system sales of $0.2 million (2016 - $nil).

(b) Sutton:

Royalty income from Sutton for the three months ended March 31, 2017 and 2016 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents and the Sutton Royalty Rate	Three months ended March 31, 2017	2016
Agents in the Sutton Royalty Pool at period end	5,400	5,185
Sutton Royalty Rate (per agent per month)	$ 57.375	$ 56.250
Royalty income	929	875

(c) Franworks:

Royalty income from Franworks Franchise Corp. (“Franworks”) for the three months ended March 31, 2017 and 2016 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants	Three months ended March 31, 2017	2016
Restaurants in the Franworks Royalty Pool at period end	-	82
Franworks Royalty Pool system sales	$ -	$ 48,097
Royalty income	-	2,942

On November 27, 2016, the Company completed the sale of the Canadian and U.S. trademarks and other intellectual property rights related to the Original Joe’s, Elephant & Castle and State & Main restaurant business (the “FW Rights”) to Original Joe’s Franchise Group Inc. (“OJFG”), a wholly-owned subsidiary of Franworks. Upon closing the sale of the FW Rights, the previously existing royalty and other commercial arrangements between the Company and Franworks were terminated.

(Tabular amounts expressed in thousands of Canadian dollars)

6. Royalties and management fees receivable:

		March 31, 2017		December 31, 2016
Mr. Lube	$	1,225	$	1,184
Sutton		334		334
	$	1,559	$	1,518

7. Deferred income taxes:

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

		March 31, 2017		December 31, 2016
Deferred tax asset:				
Non-capital losses	$	3,246	$	3,479
Financing and share issuance costs		1,156		1,266
Intangible assets		306		312
Investment tax credits		199		199
Other		139		138
Gross deferred tax asset		5,046		5,394
Deferred tax liability:				
Intangible assets		(3,864)		(3,341)
Net deferred tax asset	$	1,182	$	2,053

As at March 31, 2017, the Company has non-capital loss carry forwards of $12.5 million, which can be carried forward and applied against future taxable income.

The deferred tax liability as at March 31, 2017 is largely associated with the temporary differences on the Company's intangible assets, which have an undepreciated capital cost allowance of approximately $113.0 million.

8. Contingencies:

In 2008, Sevenson Environmental Services Inc. ("Sevenson"), a prime contractor on a U.S. Federal Government project filed a complaint against the Company and many other persons in a U.S. court.

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

On February 11, 2015, Sevenson filed its third amended complaint against the Company. The complaint alleges that employees of the Company conspired with an employee of the prime contractor relating to, among other things, the awarding of contracts during the years 2002 through 2004. Of the 21 counts in the complaint, only six name the Company as a defendant. The complaint seeks not less than approximately $1.1 million U.S. plus the value of additional gratuities from the Company and punitive damages.

Counsel for the Company brought a motion to dismiss the third amended complaint for failure to plead enough facts to state a claim for relief that is plausible on its face. In October 2015, the Company filed a counterclaim against Sevenson. In December 2015, the Company and Sevenson agreed to non-binding mediation. This mediation was unsuccessful in resolving this issue.

Management intends to defend against this claim vigorously and has prepared a significant portion of its defense and counterclaim against Sevenson. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

(Tabular amounts expressed in thousands of Canadian dollars)

9. Borrowings:

As at March 31, 2017, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities	Principal	Interest rate	Maturity date	Unamortized transaction costs	Carrying value
SGRS LP term loan	$ 6,300	BA + 2.25%	Jun 19, 2018	$ (53)	$ 6,247
ML LP term loan	34,600	BA + 2.50%	Aug 19, 2018	(152)	34,448
	$ 40,900			$ (205)	$ 40,695

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

As at March 31, 2017, SGRS LP and ML LP were in compliance with all financial covenants.

10. Interest rate swaps

The Company has interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for the SGRS LP and ML LP term loan facilities.

The interest rate swaps are re-measured at fair value at the end of each reporting period with fair values calculated as the present value of contractual cash flows based on quoted forward curves and discount rates incorporating the applicable yield curve. The following table summarizes the interest rate swap agreements outstanding as of March 31, 2017:

	Notional amount	Fixed interest rate	Maturity date	Unrealized loss since inception
SGRS LP	$ 6,300	3.41%	Jun 19, 2018	$ 14
ML LP	34,600	3.62%	Aug 13, 2018	87
	$ 40,900			$ 101

(Tabular amounts expressed in thousands of Canadian dollars)

11. Share-based compensation:

(a) Restricted share units:

The number of RSUs outstanding is as follows:

	March 31, 2017		
	Number of RSUs		Weighted average grant-date fair value
Balance, beginning of period	606,016	$	2.42
Granted	88,647		2.56
Dividends earned	13,153		2.58
Balance, end of period	707,816	$	2.44
Unvested	573,391		2.46
Vested	134,425		2.33

In January 2016, the Company announced that the Board of Directors of the Company elected to receive all compensation related to 2016 in the form of RSUs. In addition, the Company's President and CEO elected to receive at least 45% of his base salary related to 2016 in RSUs. The RSUs were issued quarterly pursuant to the Company's long-term incentive plan at the five-day weighted average trading price of DIV's common shares as at the end of each quarter. In connection with this election, and as compensation for the services provided during the three months ended December 31, 2016, the Company granted a total of 11,863 RSUs to three directors and 18,725 RSUs to the Company's President and CEO at a weighted average grant date fair value of $2.50 per RSU on March 29, 2017. These RSUs fully vested on March 31, 2017, and were settled on April 3, 2017. The Company issued 102,975 common shares in exchange for 102,975 of the vested RSUs. The remaining 31,450 of the vested RSUs were settled in cash to pay the applicable withholding taxes.

On March 29, 2017, a total of 58,059 RSUs were granted to five directors at a grant date fair value of $2.58 per RSU, which vest in their entirety on April 1, 2020.

(b) Share options:

There were no changes to the Company's outstanding options during the three months ended March 31, 2017. The following table summarizes information relating to outstanding and exercisable options as at March 31, 2017:

Exercise price	Number of options outstanding and exercisable	Weighted average remaining contractual life (years)
$ 1.50	103,000	1.25
$ 1.79	129,900	1.38
	232,900	1.32

(Tabular amounts expressed in thousands of Canadian dollars)

12. Income per share:

	For the three months ended March 31, 2017	2016
Income for the period	$ 2,313	$ 2,045
Weighted average number of shares outstanding – basic	105,535,496	113,115,086
Dilutive adjustment for share options	83,603	81,796
Dilutive adjustment for RSUs	612,333	-
Weighted average number of shares outstanding – diluted	106,231,432	113,196,883
Net income per common share:		
Basic	$ 0.02	$ 0.02
Diluted	$ 0.02	$ 0.02

13. Other finance income, net:

	For the three months ended March 31, 2017	2016
Foreign exchange gain (loss)	$ (1)	$ 352
Finance income	201	7
Amortization of deferred financing charges	(36)	(53)
	$ 164	$ 306

14. Financial instruments:

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

	March 31, 2017	December 31, 2016
Assets carried at amortized cost:		
Cash and cash equivalents	$ 72,772	$ 74,974
Royalties and management fees receivable	1,559	1,518
Amounts receivable	82	93
	$ 74,413	$ 76,585
Liabilities carried at amortized cost:		
Accounts payable and accrued liabilities	$ 498	$ 592
Long-term bank loans	40,695	40,659
	$ 41,193	$ 41,251
Liabilities carried at fair value:		
Restricted share unit obligation	$ 489	$ 434
Interest rate swap liabilities	101	97
	$ 590	$ 531