Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and nine months ended September 30, 2015 and 2014
(Unaudited)

DIVERSIFIED ROYALTY CORP.

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

	Note	September 30, 2015	December 31, 2014
Assets			
Current assets:			
Cash and cash equivalents		$ 7,950	$ 34,511
Royalties and management fees receivable	4	2,327	1,062
Amounts receivable	5	8,147	435
Prepaid expenses and other		119	126
		18,543	36,134
Deferred income tax asset	6	9,744	10,328
Intangible assets	7	284,142	108,755
		$ 312,429	$ 155,217
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 464	$ 616
Provisions	8	3,272	1,499
Restricted share unit obligations		-	61
Promissory note	10	6,943	-
Current portion of long-term liability	9	79	79
		10,758	2,255
Long-term liability	9	477	520
Long-term bank loans, net of deferred financing charges	10	55,343	14,805
Shareholders' equity:			
Share capital	11	230,156	115,013
Contributed surplus		8,442	8,210
Retained earnings		7,253	14,414
		245,851	137,637
		$ 312,429	$ 155,217

Nature of operations (note 1)
Contingencies (note 8)
Subsequent events (note 18)

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)

	Note	Three months ended September 30, 2015	Three months ended September 30, 2014	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Royalty income		$ 5,668	$ 169	$ 12,116	$ 169
Management fees		49	-	52	-
		5,717	169	12,168	169
Expenses:					
Salaries and benefits		208	376	535	807
Share-based compensation		63	39	190	222
General and administration	14	95	165	427	721
Professional fees	15	70	420	258	1,097
Litigation	8	1,104	97	3,014	358
Royalty transition credit	4(c)	284	-	284	-
Proxy contest costs		-	(63)	-	272
Acquisition costs		-	349	-	786
		1,824	1,383	4,708	4,263
Income (loss) from operations		3,893	(1,214)	7,460	(4,094)
Finance income	16	-	197	172	684
Interest expense on credit facilities	16	(397)	(12)	(794)	(16)
Other finance costs	16	(195)	(12)	(249)	(58)
Income (loss) before income taxes		3,301	(1,041)	6,589	(3,484)
Income tax expense (recovery)	6	873	(9,474)	2,292	(9,474)
Net income and comprehensive income for the period		$ 2,428	$ 8,433	$ 4,297	$ 5,990
Basic income per share	13	$ 0.03	$ 0.21	$ 0.06	$ 0.15
Diluted income per share	13	0.03	0.21	0.06	0.15

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)

	Note	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2015		$ 115,013	$ 8,210	$ 14,414	$ 137,637
Dividends declared		-	-	(11,458)	(11,458)
Common shares issued on public offering, net of issuance costs		110,144	-	-	110,144
Common shares issued in connection with April 1, 2015 new store roll-in	7	4,938	-	-	4,938
Share options exercised	12	61	(19)	-	42
Share-based compensation	12	-	251	-	251
Comprehensive income		-	-	4,297	4,297
Balance, September 30, 2015		$ 230,156	$ 8,442	$ 7,253	$ 245,851

	Note	Share capital	Contributed surplus	Retained earnings (accumulated deficit)	Total equity
Balance, January 1, 2014		$ 97,156	$ 8,664	$ (38,011)	$ 67,809
Common shares issued in private placement and acquisition of FW Rights		29,382	-	-	29,382
Reduction in stated capital		(47,156)	-	47,156	-
Share-based compensation	12	-	219	-	219
Share options exercised		2,693	(674)	-	2,019
Comprehensive income		-	-	5,990	5,990
Balance, September 30, 2014		$ 82,075	$ 8,209	$ 15,135	$ 105,419

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)

	Nine months ended September 30, 2015	Nine months ended September 30, 2014
Cash flows from (used in) operating activities:		
Net income for the period	$ 4,297	$ 5,990
Adjustments for:		
Dividends declared but not paid	(44)	-
Unwinding of discount on provision	16	18
Amortization of deferred financing charges	73	-
Share-based compensation	190	222
Changes in non-cash operating items:		
Royalties and management fees receivable	(1,265)	(177)
Amounts receivable	(7,712)	(4,885)
Prepaid expenses and other	7	(53)
Accounts payable and accrued liabilities	(152)	1,273
Provisions	1,773	(1)
Promissory note	6,943	5,150
Deferred income taxes	2,292	(9,474)
Current tax liabilities	-	(58)
Repayment of long-term liability	(59)	(59)
Net cash provided by (used in) operating activities	6,359	(2,054)
Cash flows provided by financing activities:		
Proceeds from issuance of debt, net of deferred financing fees	40,465	14,805
Proceeds from issuance of equity, net of issuance costs	108,436	8,700
Proceeds from exercise of share options	42	2,019
Payment of dividends	(11,414)	-
Net cash provided by financing activities	137,529	25,524
Cash flows used in investing activities:		
Purchase of intangible assets	(170,449)	(88,073)
Change in restricted cash	-	12
Net cash used in investing activities	(170,449)	(88,061)
Net decrease in cash and cash equivalents	(26,561)	(64,591)
Cash and cash equivalents, beginning of period	34,511	69,000
Cash and cash equivalents, end of period	$ 7,950	$ 4,409
Non-cash transaction:		
Increase in intangible assets from Royalty Pool new store roll-in	$ 4,938	$ -

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 consolidated financial statements of DIV as at and for the three and nine months ended September 30, 2015 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 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 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").

On June 19, 2015, the Company completed its second royalty acquisition, whereby it indirectly acquired (the "Sutton Acquisition"), 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 "Sutton Rights").

On August 19, 2015, the Company completed its third royalty acquisition, whereby it indirectly acquired (the "Mr. Lube Acquisition") through ML Royalties Limited Partnership ("ML LP") (an entity controlled by the Company), the trademarks and certain other intellectual property rights (the "ML Rights") from Mr. Lube Canada Limited Partnership ("Mr. Lube").

Substantially all of the Company's operating revenues are earned from the receipt of royalties and management fees from Franworks, Sutton and Mr. Lube. Accordingly, the revenues of the Company and its ability to pay dividends to shareholders are dependent on the ongoing ability of Franworks, Sutton, and Mr. Lube to generate cash and pay royalties and management fees 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 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, 2014.

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

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.

(a) Comparative information:

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

(b) New standards applicable in future periods:

IFRS 9, Financial Instruments ("IFRS 9"), 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 condensed consolidated interim financial statements.

In December 2014, the IASB issued amendments to IAS 1, Presentation of Financial Statements as part of its major initiative to improve presentation and disclosure in financial reports. These amendments will not require any significant change to current practice, but should facilitate improved financial statement disclosures. The amendments are effective for annual periods beginning on or after January 1, 2016. The Company does not expect the standard to have a material impact on its condensed consolidated interim financial statements.

4. Royalty pool:

		September 30, 2015		December 31, 2014
Royalties and management fees receivable:				
Franworks	$	1,088	$	1,062
Sutton		315		-
Mr. Lube		924		-
	$	2,327	$	1,062

(a) Franworks:

The royalty payment from Franworks to FW Royalties Limited Partnership ("FW LP"), an entity controlled by the Company, is 6.0% of system sales (the "Franworks Royalty Rate") for such period reported by Franworks for the restaurants in the Franworks royalty pool (the "Franworks Royalty Pool") plus a make-whole payment, if required by a restaurant closure, based on 6.0% of lost system sales. System sales for any period and for any Franworks restaurant located in Canada and the United States, means the gross sales by such Franworks restaurant for such period. Franworks will also, subject to meeting certain performance criteria, be provided opportunities to increase the Franworks Royalty Rate in two, 1.0% increments (note 7(a)).

Annually on April 1, the Franworks Royalty Pool is adjusted, subject to meeting certain performance criteria, 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 were permanently closed during the preceding calendar year (note 7(a)).

Royalty income from Franworks for the nine months ended September 30, 2015 and 2014 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants		September 30, 2015		September 30, 2014
Restaurants in the Franworks Royalty Pool		82		78
Franworks Royalty Pool system sales	$	157,188	$	2,810
Royalty income		9,613		169

During the nine months ended September 30, 2015, there were five make-whole payments totaling $0.2 million (on lost system sales of $3.1 million) related to renovations. The nine months ended September 30, 2014 include royalty income from Franworks from September 26, 2014, the date of the Franworks Acquisition, to September 30, 2014.

4. Royalty pool (continued):

(b) Sutton:

Pursuant to the terms of the licence and royalty agreement dated June 19, 2015 (the "Sutton Licence and Royalty Agreement"), the royalty paid by Sutton to SGRS LP is calculated by multiplying a determined number of agents (the "Sutton Royalty Pool") by an agreed royalty fee (the "Sutton Royalty Rate"). Sutton has the ability, subject to meeting certain performance criteria, to increase the amount of the annual royalty payable to the Company by increasing the number of agents in the Sutton Royalty Pool. The number of agents in the Sutton Royalty Pool may be increased annually, and will never be decreased. The Sutton Royalty Rate will automatically increase by 2% each July 1st beginning in 2016. Sutton will also have the ability, subject to meeting certain performance criteria, to increase the Sutton Royalty Rate in 10.0% increments four times during the life of the royalty (note 7(b)).

Royalty income from Sutton for the nine months ended September 30, 2015 and 2014 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents	September 30, 2015	September 30, 2014
Agents in the Sutton Royalty Pool	5,185	-
Sutton Royalty Rate (per agent per month)	$ 56.25	$ -
Royalty income	992	-

The nine months ended September 30, 2015 include royalty income from Sutton from June 19, 2015, the date of the Sutton Acquisition, to September 30, 2015.

(c) Mr. Lube:

Pursuant to the terms of the licence and royalty agreement dated August 19, 2015 (the "Mr. Lube Licence and Royalty Agreement"), the royalty paid by Mr. Lube to ML LP is calculated by multiplying the system sales of locations within the Mr. Lube royalty pool (the "Mr. Lube Royalty Pool") by an agreed royalty fee (the "Mr. Lube Royalty Rate", initially set at 6.95%). In addition, ML LP is entitled to receive a make-whole payment in the event that a Mr. Lube location in the ML Royalty Pool is permanently closed during the royalty payment period. The make-whole payment is based on the lost system sales multiplied by the Mr. Lube Royalty Rate. Mr. Lube will also, subject to meeting certain performance criteria, be provided opportunities to increase the Mr. Lube Royalty Rate in four, 0.5% increments (note 7(c)).

Royalty income from Mr. Lube for the nine months ended September 30, 2015 and 2014 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of locations	September 30, 2015	September 30, 2014
Locations in the Mr. Lube Royalty Pool	117	-
Mr. Lube Royalty Pool system sales	$ 21,738	$ -
Royalty income	1,511	-

The monthly royalty payments received from Mr. Lube related to the periods ending on or before December 31, 2015 are subject to a royalty transition credit of $0.2 million per month, pro-rated for partial payment periods. The royalty transition credit for the three and nine months ended September 30, 2015 was $0.3 million.

(Expressed in thousands of Canadian dollars)

5. Amounts receivable:

	September 30, 2015	December 31, 2014
GST receivable	$ 6,906	$ -
Insurance proceeds (note 8(b))	1,241	435
	$ 8,147	$ 435

GST receivable includes $6.9 million paid on the Mr. Lube Acquisition (note 7(c)).

6. Deferred income taxes:

The Company's net deferred tax asset of $9.7 million is comprised of a gross deferred tax asset of $12.1 million less a deferred tax liability of $2.4 million. This deferred tax asset primarily relates to the Company's non-capital losses of approximately $31.8 million. Given the anticipated monthly royalty income to be received from Franworks, Sutton, and Mr. Lube, the Company expects to be able to utilize these non-capital losses during the carry forward period, and as such, recognized this deferred tax asset on the balance sheet as at September 30, 2015 and December 31, 2014. The deferred tax liability is largely associated with the temporary differences on the Company's eligible capital expenditures related to the FW Rights, Sutton Rights, and ML Rights, which has a tax cost base of approximately $186.7 million.

7. Intangible assets:

Balance, January 1, 2014	$ -
Acquisition of FW Rights	108,755
Balance, December 31, 2014	108,755
Roll-in of new Franworks restaurants	4,938
Acquisition of Sutton Rights	31,230
Acquisition of ML Rights	139,219
Balance, September 30, 2015	$ 284,142

(a) FW Rights:

On September 26, 2014, the Company acquired the FW Rights from Franworks' wholly owned subsidiary, Original Joe's Franchise Group Inc. ("OJFG"), for $108.8 million, of which $88.1 million was paid in cash (satisfied by $64.4 in cash, the issuance of $15.0 million in debt (note 10), and receipt of $8.7 million in a private placement of common shares) and $20.7 million was paid by the issuance of 8,992,187 common shares of the Company.

7. Intangible assets (continued):

(a) FW Rights (continued):

In connection with the Franworks Acquisition, FW LP issued 100,000,000 Class B, Class C, and Class D LP units to OJFG. These units will become exchangeable into common shares of the Company through the exchange agreement dated September 26, 2014 among OJFG, the Company and FW Royalties GP Inc. (the "Franworks Exchange Agreement") upon 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 and Class D LP units become exchangeable on the increase in the Franworks Royalty Rate from 6.0% to 7.0% and from 7.0% to 8.0%, respectively, in accordance with the partnership agreement dated September 26, 2014 among OJFG, the Company and FW Royalties GP Inc.

Immediately following the closing of the Franworks Acquisition, the Company, through FW LP, licensed the FW Rights to OJFG for a period of 99 years in exchange for a royalty payment equal to the Franworks Royalty Pool multiplied by the Franworks Royalty Rate (note 4(a)).

Annually on April 1, the Franworks Royalty Pool is adjusted, subject to meeting certain performance criteria, 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 U.S. that was 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 $4.9 million representing 80% of the total estimated consideration of $6.2 million payable to Franworks for such additional royalty revenue. 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 nine months ended September 30, 2015 increased by $4.9 million.

(b) Sutton Rights:

On June 19, 2015, the Company acquired, through SGRS LP, the Sutton Rights for a purchase price of $30.6 million, which was paid through $30.6 million in cash (satisfied by $24.3 million in cash and the issuance of $6.3 million in debt (note 10)). Additionally, $0.6 million in costs incurred for the acquisition of the Sutton Rights were capitalized as part of the purchase. Immediately following the closing of the Sutton Acquisition, the Company, through SGRS LP, licensed the Sutton Rights back to Sutton for 99 years in exchange for a royalty payment equal to the Sutton Royalty Pool multiplied by the Sutton Royalty Rate (note 4(b)).

Upon closing the Sutton Acquisition, SGRS LP issued 100,000,000 Class A, Class, B, Class C, Class D, and Class E LP units to Sutton. These units will become exchangeable into common shares of the Company through the exchange agreement dated June 19, 2015 among Sutton, SGRS Royalties GP Inc. and the Company (the "Sutton Exchange Agreement") upon satisfaction of certain performance criteria.

7. Intangible assets (continued):

(b) Sutton Rights (continued):

The Class A LP Units become exchangeable into common shares of the Company on the contribution of additional agents into the Sutton Royalty Pool. The Class B, Class C, Class D, and Class E LP units become exchangeable into common shares of the Company on increases in the Sutton Royalty Rate of 10.0% increments four times during the life of the royalty, in accordance with the partnership agreement dated June 19, 2015 among Sutton, the Company, and SGRS Royalties GP Inc.

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

(c) ML Rights:

On August 19, 2015, the Company acquired, through ML LP, the ML Rights for a purchase price of $138.9 million, which was paid through $138.9 million in cash. Additionally, $0.4 million in costs incurred for the acquisition of the Mr. Lube Rights were capitalized as part of the purchase. The cash payment was financed through the issuance of $34.6 million in debt (note 10) and partial proceeds from the issuance of equity in August 2015 (note 11). Immediately following the acquisition of the ML Rights, the Company, through ML LP, licensed the Mr. Lube Rights back to Mr. Lube for 99 years in exchange for a royalty payment equal to the Mr. Lube Royalty Pool multiplied by the Mr. Lube Royalty Rate (note 4(c)).

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

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

(Expressed in thousands of Canadian dollars)

8. Provisions and contingencies:

	John Bennett Indemnity Claim	Liability to Insurance Underwriter	Other	Total
	(a)	(b)		
Balance, January 1, 2014	$ 135	$ 380	$ 100	$ 615
Provisions made during the period	538	331	-	869
Provisions used during the period	(25)	-	-	(25)
Change in foreign exchange rate	6	34	-	40
Balance, December 31, 2014	654	745	100	1,499
Provisions made during the period	2,386	1,616	-	4,002
Provisions used during the period	(2,386)	-	-	(2,386)
Change in foreign exchange rate	14	143	-	157
Balance, September 30, 2015	$ 668	$ 2,504	$ 100	$ 3,272

The liability to the insurance underwriter shown above is partially offset by $1.2 million of insurance proceeds receivable (note 5).

(a) John Bennett indemnity claim:

John Bennett ("Bennett"), 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) 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 Ontario 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 September 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. The Company filed a motion to challenge the reasonableness of Bennett's legal costs incurred to date, with a hearing expected in December 2015.

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 tenure agreement referred to in note 9.

(b) Liability to insurance underwriter:

Under its funding agreement with the insurance underwriter, the Company expects to be required to repay all legal costs it recovers from the underwriter in the event that Bennett is found guilty. As at September 30, 2015, the estimated liability was $2.5 million (December 31, 2014 - $0.7 million). The Company has cash resources available to settle the estimated liability that may result from this requirement, which it has accrued in its financial statements.

(Expressed in thousands of Canadian dollars)

8. Provisions and contingencies (continued):

(c) Additional claims involving John Bennett:

Bennett has also served a claim against Second City Capital Partners I, Limited Partnership (“Second City”), Samuel Belzberg (“Belzberg”) and the Company in 2011. The claim alleges that in September 2009, the Company was in possession of material undisclosed information and that, while in possession of such information, the Company and Belzberg directed Second City to purchase the Company’s common shares from 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:

In 2008, a prime contractor on a U.S. Federal Government project filed a complaint against the Company and many other persons in a U.S. court. This relates to the same matters which are the subject of the John Bennett litigation. 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 described in note 8(a).

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, 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 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.

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. This motion was not successful. Management intends to defend against this claim vigorously. In October 2015, the Company filed a counterclaim against the U.S. contractor.

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 Bennett.

	September 30, 2015	December 31, 2014
Balance, beginning of period	$ 599	$ 653
Payments made	(59)	(79)
Adjustment to and unwinding of discount	16	25
	556	599
Less: current portion	79	79
Balance, end of period	$ 477	$ 520

(Expressed in thousands of Canadian dollars)

9. Long-term liability (continued):

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 0.81% based upon the current long-term Canadian bond rate which is reviewed and updated regularly as required.

10. Borrowings:

(a) Credit facilities:

As at September 30, 2015, the Company had the following term loan facilities:

Term loan facilities	Principal	Interest rate	Maturity date	Unamortized transaction costs	Carrying value
FW Term Loan	$ 15,000	BA + 4.15%	Sep 26, 2017	$ (145)	$ 14,855
SGRS Term Loan	6,300	BA + 2.25%	Jun 19, 2018	(115)	6,185
ML Term Loan	34,600	BA + 2.50%	Aug 19, 2018	(297)	34,303
	$ 55,900			$ (557)	$ 55,343

As at September 30, 2015, the Company had the following operating lines of credit:

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
FW Line of Credit	$ 2,000	BA + 4.50%	Sep 26, 2017	$ -	$ 2,000
SGRS Line of Credit	500	BA + 2.45%	Jun 19, 2018	-	500
ML Line of Credit	1,000	BA + 2.50%	Aug 19, 2018	-	1,000
	$ 3,500			$ -	$ 3,500

(i) FW Term Loan and Line of Credit:

On September 26, 2014, concurrent with the Franworks Acquisition, FW LP borrowed a non-amortizing $15.0 million term loan (the “FW Term Loan”) and a $2.0 million demand operating facility (the “FW Line of Credit”) from a banking syndicate (the “FW Term Loan”). The FW Term Loan and FW Line of Credit are secured by a general security agreement over the assets of FW LP, an assignment of the royalty earned under the Franworks Licence and Royalty Agreement and a guarantee from the Company.

The FW Term Loan and FW Line of Credit are 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 September 30, 2015, the Company and FW LP are in compliance with all financial covenants associated with this facility.

10. Borrowings:

(a) Credit facilities (continued):

(ii) SGRS Term Loan and Line of Credit:

On June 19, 2015, concurrent with the Sutton Acquisition, SGRS LP borrowed a non-amortizing $6.3 million term loan (the "SGRS Term Loan") and a $0.5 million demand operating facility (the "SGRS Line of Credit") from a Canadian chartered bank. The SGRS Term Loan and SGRS Line of Credit are secured by the SGRS Rights and the royalties payable by Sutton under the Sutton Licence and Royalty Agreement.

The SGRS Term Loan and SGRS Line of Credit are subject to certain financial covenants, including a covenant for SGRS LP to maintain EBITDA for the trailing twelve month period of at least $2.9 million. As at September 30, 2015, SGRS LP was in compliance with all financial covenants associated with this facility.

(iii) ML Term Loan and Line of Credit:

On August 19, 2015, concurrent with the acquisition of the ML Rights, ML LP borrowed a non-amortizing $34.6 million term loan and a $1.0 million demand operating facility (the "ML Line of Credit") from a Canadian chartered bank. The ML Term Loan and ML Line of Credit are secured by the ML Rights and the royalties payable by Mr. Lube under the Mr. Lube Licence and Royalty Agreement.

The ML Term Loan and ML Line of Credit are subject to certain financial covenants, including a covenant for ML LP to maintain a funded debt to EBITDA ratio of not more than 3.0:1.0. As at September 30, 2015, ML LP was in compliance with all financial covenants associated with this facility.

(b) Promissory note:

The promissory note of $6.9 million issued by ML LP to Mr. Lube at the closing of the ML Rights acquisition was issued with a principal amount equal to the Goods and Services Tax ("GST") paid on the ML Rights acquisition. Mr. Lube financed this GST on behalf of ML LP. The promissory note bears interest at 5.0% per annum, compounded annually and is repayable upon the earlier of (i) the six month anniversary of the closing date of the ML Rights acquisition, or (ii) the third business day following the receipt by the ML LP of a refund related to the GST payable under the *Excise Tax Act* (Canada) in respect of the acquisition of the Mr. Lube Rights by ML LP at closing of the Mr. Lube Acquisition.

(Expressed in thousands of Canadian dollars)

11. Share capital:

At September 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:

	September 30, 2015		December 31, 2014	
	Common shares	Amount	Common shares	Amount
Balance, beginning of period	68,530,173	$ 115,013	38,778,897	$ 97,156
Reduction in stated capital	-	-	-	(47,156)
Shares issued on public offering, net of issue costs and taxes	42,595,000	110,144	14,375,000	32,938
Shares issued in private placement	-	-	5,240,964	8,700
Shares issued in connection with acquisition of FW Rights	-	-	8,992,187	20,682
Shares issued in connection with April 1, 2015 new store roll-in (note 4(a))	1,835,728	4,938	-	-
Shares issued pursuant to options exercised	20,000	61	1,143,125	2,693
Balance, end of period	112,980,901	$ 230,156	68,530,173	$ 115,013

On August 18, 2015, the Company completed a public offering of 42,595,000 subscription receipts ("Subscription Receipts") including 1,854,000 Subscription Receipts pursuant to the partial exercise of the over-allotment option, at a price of $2.70 per Subscription Receipt, for gross proceeds of $115.0 million. After deducting issuance costs of $6.6 million, net proceeds were $108.4 million, which were used to partially fund the acquisition of the ML Rights (note 7), and for general corporate purposes. The deferred tax impact of $1.7 million on the share issue costs was recognized within share capital.

Upon completion of the ML Rights acquisition, the Subscription Receipts were automatically exchanged into common shares of the Company.

12. Share-based payments:

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 at a grant date fair value of $2.35 totaling $0.6 million. These RSUs vest in their entirety on December 31, 2017.

During the nine months ended September 30, 2015, a total of 32,418 RSUs were granted collectively to three directors, at a grant date fair value of $2.78 per RSU totaling $0.1 million, effective April 21, 2015 (three and nine months ended September 30, 2014 – nil). The RSUs issued to the three directors vest in their entirety on April 1, 2018.

During the nine months ended September 30, 2015, the CEO's RSU plan was amended such that RSU's will be equity-settled instead of 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 equity-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. This resulted in the reclassification of $0.2 million to contributed surplus for the nine months ended September 30, 2015.

(Expressed in thousands of Canadian dollars)

12. Share-based payments (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. Share options were granted to both employees and non-employees. 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.

During the nine months ended September 30, 2015, the Company issued nil share options (three and nine months ended September 30, 2014 - nil). During the nine months ended September 30, 2015, there were 20,000 share options exercised into common shares. The following table summarizes information relating to outstanding and exercisable options at September 30, 2015:

	Options outstanding			Options exercisable	
Exercise price	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	2.75	$ 1.50	154,500	$ 1.50
$ 1.79	129,900	2.88	1.79	129,900	1.79
$ 2.12	401,100	0.93	2.12	401,100	2.12
	685,500	1.71	$ 1.92	685,500	$ 1.92

13. Income per share:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Income for the period	$ 2,428	$ 8,433	$ 4,297	$ 5,990
Net income per common share:				
Basic	0.03	0.21	0.06	0.15
Diluted	0.03	0.21	0.06	0.15
Weighted average number of shares:				
Basic	89,811,879	39,459,496	76,307,215	39,459,496
Diluted	90,022,791	39,594,730	76,517,976	39,523,481

(Expressed in thousands of Canadian dollars)

14. General and administrative expenses:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Rent, supplies and administrative services	$ 33	$ 92	$ 90	$ 255
Insurance	13	63	140	136
Exchange and filing fees	29	51	148	120
Other	20	(41)	49	210
	$ 95	$ 165	$ 427	$ 721

Rent, supplies and administrative services for the three and nine months ended September 30, 2015 and 2014 were primarily related to a services agreement with Maxam Capital Corp. 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		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Legal	$ 16	$ 8	$ 138	$ 614
Audit, tax, and other	54	412	120	483
	$ 70	$ 420	$ 258	$ 1,097

(Expressed in thousands of Canadian dollars)

16. Finance income and finance costs:

	Three months ended		Nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Interest income on cash and cash equivalents	$ -	$ 197	$ 172	$ 684
Finance income	$ -	$ 197	$ 172	$ 684
Interest expense on credit facilities	$ 397	$ 12	$ 794	$ 16
Interest expense on credit facilities	$ 397	$ 12	$ 794	$ 16
Interest expense on promissory note	$ 55	$ -	$ 55	$ -
Amortization of deferred financing fees	39	-	73	-
Loan application fee	-	-	-	25
Adjustment to and unwinding of discount on financial liabilities	4	3	16	18
Foreign exchange loss	97	9	105	15
Other finance costs	$ 195	$ 12	$ 249	$ 58

17. Financial instruments:

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

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

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

(Expressed in thousands of Canadian dollars)

17. Financial instruments (continued):

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

	September 30, 2015	December 31, 2014
Assets carried at amortized cost:		
Cash and cash equivalents	$ 7,950	$ 34,511
Royalties and management fees	2,327	1,062
Amounts receivable	8,147	435
	$ 18,424	$ 36,008
Liabilities carried at amortized cost:		
Accounts payable and accrued liabilities	$ 464	$ 616
Promissory note payable	6,943	-
Long-term bank loan	55,343	14,805
	$ 62,750	$ 15,421
Liabilities carried at fair value:		
Tenure benefits	$ 556	$ 599

18. Subsequent events:

(a) Interest rate swaps:

In October 2015, the Company entered into interest rate swap agreements that entitle the Company to receive interest at floating rates and effectively pay interest at fixed rates for the SGRS Term Loan and the ML Term Loan. The following table summarizes the interest rate swap agreements:

	Notional amount	Effective interest rate	Maturity date
SGRS LP interest rate swap	$ 6,300	3.41%	June 19, 2018
ML LP interest rate swap	34,600	3.62%	August 13, 2018
	$ 40,900		

The interest rate swaps will be 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.

18. Subsequent events (continued):

(b) Restricted share unit grant:

In October 2015, the Company issued 123,802 RSUs to the CFO at a grant date fair value of $2.68 per RSU totaling $0.3 million. These RSUs vest in three annual instalments on September 1, 2016, September 1, 2017, and September 1, 2018.

(c) Dividend reinvestment plan:

In November 2015, the Company adopted a dividend reinvestment plan (“DRIP”), commencing with the Company’s November 2015 dividend, which will be paid on November 30, 2015 to shareholders of record on November 20, 2015.

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

(d) Partial repayment of promissory note:

In November 2015, the Company repaid $3.0 million of the $6.9 million promissory note (note 10(b)).