Condensed Consolidated Interim Financial Statements of

DIVERSIFIED ROYALTY CORP.

Three and nine months ended September 30, 2016 and 2015
(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	September 30, 2016	December 31, 2015
Assets			
Current assets:			
Cash and cash equivalents		$ 7,954	$ 8,889
Royalties and management fees receivable	4	2,490	2,280
Amounts receivable		24	29
Prepaid expenses and other		116	75
Asset held for sale	6	112,245	-
		122,829	11,273
Deferred income tax asset	5	2,315	9,115
Intangible assets	6	171,498	284,147
		$ 296,642	$ 304,535
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities		$ 1,362	$ 914
Restricted share unit obligation	11	296	-
Provisions	7	8,617	6,419
Loan associated with the asset held for sale	6, 8	14,926	-
		25,201	7,333
Long-term bank loans, net of deferred financing charges	8	40,622	55,388
Interest rate swap liabilities	9	229	297
Shareholders' equity:			
Share capital	10	233,327	230,357
Contributed surplus		8,307	8,542
Retained earnings (accumulated deficit)		(11,044)	2,618
		230,590	241,517
		$ 296,642	$ 304,535

Nature of operations (note 1)
Contingencies (note 7)
Subsequent events (note 14)

See accompanying notes to condensed consolidated interim financial statements.

DIVERSIFIED ROYALTY CORP.

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

		Three months ended		Nine months ended	
	Note	September 30, 2016	September 30, 2015	September 30, 2016	September 30, 2015
Royalty income		$ 7,242	$ 5,668	$ 21,574	$ 12,116
Management fees		76	49	226	52
		7,318	5,717	21,800	12,168
Expenses:					
Salaries and benefits		291	208	885	535
Share-based compensation		187	63	507	190
General and administration		107	95	361	427
Professional fees		47	70	185	258
Litigation		325	1,104	4,779	3,014
Royalty transition credit		-	284	-	284
Impairment of intangible asset	6(b)	1,448	-	1,448	-
		2,405	1,824	8,165	4,708
Income from operations		4,913	3,893	13,635	7,460
Interest expense on credit facilities		(559)	(397)	(1,670)	(794)
Other finance income (costs), net	12	(80)	(195)	167	(77)
Fair value adjustment on interest rate swaps	9	38	-	68	-
Income before income taxes		4,312	3,301	12,200	6,589
Income tax expense	5	4,649	873	6,800	2,292
Net income (loss) and comprehensive income (loss) for the period		$ (337)	$ 2,428	$ 5,400	$ 4,297
Weighted average number of shares outstanding					
Basic		113,894,278	89,811,879	113,420,103	76,307,215
Diluted		113,894,278	90,022,791	114,047,568	76,517,976
Income (Loss) per share					
Basic		$ 0.00	$ 0.03	$ 0.05	$ 0.06
Diluted		0.00	0.03	0.05	0.06

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 (accumulated deficit)	Total equity
Balance, January 1, 2016		$ 230,357	$ 8,542	$ 2,618	$ 241,517
Common shares issued in connection with roll-in of Sutton agents	6(c)	1,044	-	-	1,044
Common shares issued on DRIP		845	-	-	845
Share options exercised	11	1,023	(336)	-	687
Restricted share units vested	11	58	(58)	-	-
Share-based compensation		-	159	-	159
Dividends declared		-	-	(18,928)	(18,928)
Dividends payable to OJFG	6(a)	-	-	(134)	(134)
Comprehensive income		-	-	5,400	5,400
Balance, September 30, 2016		$ 233,327	$ 8,307	$ (11,044)	$ 230,590

	Note	Share capital	Contributed surplus	Retained earnings	Total equity
Balance, January 1, 2015		$ 115,013	$ 8,210	$ 14,414	$ 137,637
Common shares issued on public offering, net of issuance costs and taxes		110,144	-	-	110,144
Common shares issued in connection with roll-in of Franworks restaurants		4,938	-	-	4,938
Share options exercised		61	(19)	-	42
Share-based compensation		-	251	-	251
Dividends declared		-	-	(11,414)	(11,414)
Dividends payable to OJFG		-	-	(44)	(44)
Comprehensive income		-	-	4,297	4,297
Balance, September 30, 2015		$ 230,156	$ 8,442	$ 7,253	$ 245,851

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, 2016	2015
Cash flows from (used in) operating activities:		
Net income for the period	$ 5,400	$ 4,297
Adjustments for:		
Dividends accrued but not paid	(134)	(44)
Unwinding of discount on financial liabilities	-	16
Amortization of deferred financing charges	160	73
Share-based compensation	507	190
Fair value adjustments on interest rate swaps	(68)	-
Impairment of intangible asset	1,448	-
Changes in non-cash operating items:		
Royalties and management fees receivable	(210)	(1,265)
Amounts receivable	5	(7,712)
Prepaid expenses and other	(41)	7
Deferred income taxes	6,800	2,292
Accounts payable and accrued liabilities	396	(152)
Promissory note	-	6,943
Provisions	2,198	1,773
Repayment of long-term liability	-	(59)
Net cash provided by operating activities	16,461	6,359
Cash flows from (used in) financing activities:		
Proceeds from issuance of debt	-	40,900
Deferred financing fees	-	(435)
Proceeds from issuance of equity	-	115,007
Equity issuance costs	-	(6,571)
Proceeds from exercise of share options	687	42
Payment of dividends	(18,083)	(11,414)
Net cash from (used in) financing activities	(17,396)	137,529
Cash flows used in investing activities:		
Purchase of intangible assets	-	(170,449)
Net cash used in investing activities	-	(170,449)
Net decrease in cash and cash equivalents	(935)	(26,561)
Cash and cash equivalents, beginning of period	8,889	34,511
Cash and cash equivalents, end of period	$ 7,954	$ 7,950

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 nine months ended September 30, 2016 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 in North America.

On September 26, 2014, the Company completed the acquisition (the "Franworks Acquisition"), through FW Royalties Limited Partnership ("FW LP") (an entity controlled by the Company), of all of the Canadian and U.S. trademarks and other intellectual property rights related to the Original Joe's, Elephant & Castle and State & Main restaurant businesses (the "FW Rights") from a wholly owned subsidiary of Franworks Franchise Corp. ("Franworks"). The Company granted Franworks the licence to use the FW Rights for a term ending on December 31, 2113 in exchange for a royalty payment initially equal to 6.0% of system sales of the Franworks restaurants in the royalty pool (the "Franworks Royalty Pool").

On 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 "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 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"). 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 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.

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, 2015.

These condensed consolidated financial statements were authorized and approved for issue by the Company's Board of Directors on November 14, 2016.

2. Basis of preparation (continued):

(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 obligations, 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, 2015.

(c) Functional and presentation currency:

These condensed consolidated interim 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 policies as the annual financial statements for the year ended December 31, 2015, except as described below.

(a) Changes in accounting policies and disclosures:

Effective January 1, 2016, the Company adopted the amendments to IAS 1, *Presentation of Financial Statements*. These amendments do not require any significant change to current practice, but will facilitate improved financial statement disclosures. 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.

3. Significant accounting policies (continued):

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

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.

In January 2016, the IASB issued amendments to IAS 7, *Statement of Cash Flows* as part of its major initiative to improve presentation and disclosure in financial reports. These amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

In January 2016, the IASB issued amendments to IAS 12, *Income Taxes*. The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset, and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also clarify the methodology to determine the future taxable profits used for assessing the utilization of deductible temporary differences. The mandatory effective date for these amendments is for annual periods beginning on or after January 1, 2017. The Company is currently evaluating the impact of these amendments on its consolidated financial statements.

4. Royalty pool:

	September 30, 2016	December 31, 2015
Royalties and management fees receivable:		
Franworks	$ 1,024	$ 1,122
Sutton	334	315
Mr. Lube	1,132	843
	$ 2,490	$ 2,280

(a) Franworks:

Royalty income from Franworks for the nine months ended September 30, 2016 and 2015 were calculated as follows:

Expressed in thousands of Canadian dollars, except for number of restaurants	Nine months ended September 30, 2016	2015
Restaurants in the Franworks Royalty Pool	82	82
Franworks Royalty Pool system sales	$ 150,477	$ 157,188
Royalty income	9,154	9,613

During the nine months ended September 30, 2016, royalty income from Franworks includes make-whole payments totaling $0.1 million (2015 - $0.2 million) on lost system sales of $2.1 million (2015 - $3.1 million) related to renovations.

4. Royalty pool (continued):

(b) Sutton:

Royalty income from Sutton for the nine months ended September 30, 2016 and September 30, 2015 was calculated as follows:

Expressed in thousands of Canadian dollars, except for number of agents and the Sutton Royalty Rate	Nine months ended September 30, 2016	2015
Agents in the Sutton Royalty Pool	5,400	5,185
Sutton Royalty Rate (per agent per month)	$ 57.375	$ 56.250
Royalty income	2,679	992

On July 4, 2016, the Sutton Royalty Pool was adjusted to increase the number of agents in the Sutton Royalty Pool from 5,185 to 5,400 agents. Effective July 1, 2016, the Sutton Royalty Rate increased from $56.25 per agent to $57.375 per agent, representing the 2.0% annual contractual increase in the Sutton Royalty Rate for 2016.

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

(c) Mr. Lube:

Royalty income from Mr. Lube for the nine months ended September 30, 2016 was calculated as follows:

Expressed in thousands of Canadian dollars, except for number of locations	Nine months ended September 30, 2016	2015
Locations in the Mr. Lube Royalty Pool	117	117
Mr. Lube Royalty Pool system sales	$ 139,735	$ 21,738
Royalty income	9,741	1,511

During the nine months ended September 30, 2016, royalty income from Mr. Lube includes make-whole payments totaling $0.03 million on lost system sales of $0.4 million.

The nine months ended September 30, 2015 includes royalty income from Mr. Lube from August 19, 2015, the date of the Mr. Lube Acquisition, to September 30, 2015.

5. Deferred income taxes:

The Company’s net deferred tax asset of $2.3 million (December 31, 2015 - $9.1 million) is comprised of a gross deferred tax asset of $11.0 million (December 31, 2015 - $11.8 million) less a deferred tax liability of $8.7 million (December 31, 2015 - $2.7 million). This deferred tax asset largely relates to the Company’s non-capital losses of approximately $17.3 million (December 31, 2015 - $30.4 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, 2016 and December 31, 2015. The deferred tax liability is largely associated with the temporary differences on the Company’s FW Rights, SGRS Rights, and ML Rights, which has eligible capital expenditures of approximately $181.3 million (December 31, 2015 - $183.3 million).

(Expressed in thousands of Canadian dollars)

5. Deferred income taxes (continued):

Income tax expense as reported differs from the amount that would be computed by applying the combined federal and provincial statutory income tax rates to the income before taxes. The reason for the difference is as follows:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Income before income taxes	$ 4,312	$ 3,301	$ 12,200	$ 6,589
Combined Canadian federal and provincial tax rates	26%	26%	26%	26%
Expected tax expense	1,121	858	3,172	1,713
Increased (decreased) by:				
Deferred taxes on FW Rights transaction	3,686	-	3,686	-
Non-deductible impairment loss	376	-	376	-
Non-deductible share-based compensation	(41)	15	41	49
Change in prior year estimates and tax rates	(498)	-	(477)	529
Other	5	-	2	1
	$ 4,649	$ 873	$ 6,800	$ 2,292

6. Intangible assets:

	FW Rights (a), (b)	SGRS Rights (c)	ML Rights	Total
Balance, January 1, 2016	113,693	31,229	139,225	284,147
Roll-in of Sutton agents	-	1,044	-	1,044
Impairment loss	(1,448)	-	-	(1,448)
Transfer to asset held for sale	(112,245)	-	-	(112,245)
Balance, September 30, 2016	$ -	$ 32,273	$ 139,225	$ 171,498

(a) Franworks Royalty Pool Amendment

On April 1, 2015, the Franworks Royalty Pool was 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 (“2015 Franworks Royalty Pool Amendment”). The initial consideration for the estimated net additional royalty revenue was approximately $4.9 million representing 80% of the total estimated consideration of $6.2 million payable to Franworks for such additional royalty revenue. The consideration was paid in the form of DIV shares on the basis of the 20-day volume weighted average closing price of DIV’s shares for the period ending 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 Franworks’ wholly owned subsidiary, Original Joe’s Franchise Group Inc. (“OJFG”).

Based on the audited gross sales in 2015 of the net new stores added to the Franworks Royalty Pool on April 1, 2015, the total consideration for the net additional royalty revenue is $6.7 million. After taking into account the 1,835,728 DIV shares previously issued to OJFG on April 1, 2015, the Company will issue 637,051 DIV shares to OJFG. The Company has accrued $0.2 million of dividends payable related to these DIV shares.

(Expressed in thousands of Canadian dollars)

6. Intangible assets (continued):

(a) Franworks Royalty Pool Amendment (continued)

On March 24, 2016, DIV, FW LP, Franworks Royalties GP Inc., and OJFG entered into an extension agreement pursuant to which the parties agreed to: i) extend the date for the payment of the 637,051 DIV shares to OJFG in respect of the 2015 Franworks Royalty Pool Amendment from April 1, 2016 to April 3, 2017; and (ii) extend the deadline under the Franworks licence and royalty agreement from March 26, 2016 to April 3, 2017 for the expenditure by OJFG of $8.0 million to refurbish and renovate certain Elephant & Castle restaurants in the Franworks Royalty Pool.

(b) Sale of FW Rights

On August 31, 2016, DIV and FW LP entered into an agreement (the “Sale Agreement”) to sell the FW Rights for: (i) $90.0 million of cash; (ii) the cancellation of 8,992,187 DIV common shares held by OJFG; (iii) the extinguishment of OJFG’s right to receive 637,051 DIV common shares related to the April 1, 2015 royalty pool adjustment; and (iv) the extinguishment of OJFG’s right to receive accrued dividends on these shares to the date of closing. Completion of the sale of the FW Rights is subject to a number of conditions customary for a transaction of this nature.

In connection with entering into the Sale Agreement, the Company presented the FW Rights as an asset held for sale and recorded a non-cash impairment of $1.4 million. The recoverable amount of $112.2 million for the FW Rights was determined based on the estimated fair value of the consideration receivable as per the Sale Agreement, less estimated transaction costs. This impairment loss may be adjusted based on the deemed share price and the final transaction costs on the closing date of the sale.

(c) Sutton Royalty Pool Amendment

On July 4, 2016, the Sutton Royalty Pool was adjusted to increase the number of agents from 5,185 to 5,400 agents. The consideration for the additional royalty income is approximately $1.0 million, and was calculated using a 7.5% discount of the estimated royalty revenue added to the Sutton Royalty Pool. The consideration was paid in the form of DIV shares on the basis of the 20-day volume weighted average closing price of DIV’s shares for the period ending May 24, 2016. Based on a weighted average closing price of $2.2926 per share for such period, the consideration payable for the net additional royalty income was paid to Sutton in the form of 455,392 DIV shares which were issued to Sutton on July 4, 2016.

7. Provisions and contingencies:

	John Bennett Indemnity Claim	Insurance Underwriter Provision	Other	Total
	(a)	(b)		
Balance, December 31, 2014	$ 654	$ 745	$ 100	$ 1,499
Provisions made during the period	5,228	2,734	-	7,962
Provisions used during the period	(3,351)	-	-	(3,351)
Change in foreign exchange rate	23	286	-	309
Balance, December 31, 2015	2,554	3,765	100	6,419
Provisions made during the period	3,398	4,990	75	8,463
Provisions used during the period	(5,807)	-	(175)	(5,982)
Change in foreign exchange rate	(145)	(138)	-	(283)
Balance, September 30, 2016	$ -	$ 8,617	$ -	$ 8,617

7. Provisions and contingencies (continued):

(a) John Bennett indemnity claim:

In 2009, John Bennett, CEO of the Company until early 2004, was charged with conspiracy to commit fraud and major fraud against the United States between 2001 and mid-2004. The Company and two former vice presidents (both of whom left the Company in 2004) pled guilty to this same conspiracy against the United States.

In 2010, the Company was ordered by the courts to reimburse Mr. Bennett on an interim basis (the "Interim Order") for reasonable legal costs he would incur in connection with his criminal defense, subject to a reasonableness test as well as the obligation to repay the amounts advanced to him if it was ultimately determined that he was not entitled to indemnification because he did not act honestly and in good faith and with a view to the best interests of the Company.

In 2013, the Company brought a motion to challenge the reasonableness of some of Mr. Bennett's legal costs and was successful in part. In 2013, the Company also brought a motion to set aside the Interim Order but was unsuccessful.

In November 2014, Mr. Bennett was extradited to the United States.

In September 2015, the Company brought a motion to challenge the reasonableness of Mr. Bennett's legal costs incurred between 2013 and the date of the motion. In January 2016, the Ontario court ruled on the motion and decided that the majority of all the legal expenses that the Company was challenging were reasonable, except for a nominal amount of $0.05 million.

Mr. Bennett was tried between February 22, 2016 and March 16, 2016. On March 16, 2016, the jury returned a guilty verdict on both counts (conspiracy to commit fraud and major fraud against the United States).

Upon learning of the guilty verdict, the Company brought an urgent motion to have the Interim Order set aside. On March 17, 2016, the court granted a temporary stay of the Interim Order pending the hearing of the Company's motion. The motion was heard on April 4, 2016, and the Ontario court found that the guilty verdict was still subject to confirmation by the trial judge in the United States. The Ontario court ruled that, as Mr. Bennett had brought a motion to set aside the verdict and require a new trial, the Interim Order should remain in place at this time and the Company is still obligated to pay Mr. Bennett's legal costs. The ruling on the confirmation of Mr. Bennett's verdict by the trial judge in the United States was expected to occur on or before his sentencing date.

On August 9, 2016, the US courts convicted and sentenced Mr. Bennett. On August 15, 2016, the Company filed a motion in Ontario court to set aside the Interim Order and a court date was set for October 5, 2016 for the motion to be heard. This court date was subsequently rescheduled to November 17, 2016. In addition, the Company was successful in obtaining an interim stay on any further payments under the Interim Order pending the November 17, 2016 hearing.

The Company has paid all legal costs reimbursable to Mr. Bennett that were required to be paid before August 15, 2016, the day that the Company received an interim stay on the Interim Order. The Company has received invoices totaling US$0.3 million related to Mr. Bennett's legal costs that were payable subsequent to August 15, 2016. The Company has not accrued for these additional costs in its financial statements as it does not believe it is required to pay for such costs in light of the conviction and sentencing of Mr. Bennett on August 9, 2016.

7. Provisions and contingencies (continued):

(b) Insurance underwriter provision:

The Company has received reimbursements from its insurance underwriter for Mr. Bennett's legal costs incurred in connection with his criminal defense, and as described in section (a) of this note. As at September 30, 2016, the Company has recovered $8.6 million (or US$6.9 million) from the insurance underwriter.

The Company initiated a discussion with its insurance provider with respect to its obligations in the event that the Interim Order is set aside.

In the event the Company is liable, it has adequate resources available to settle the estimated liability that may result from this requirement, which it has accrued in its financial statements.

(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, 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. 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 7(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, 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.

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.

(Expressed in thousands of Canadian dollars)

8. Borrowings:

As at September 30, 2016, the Company had the following term loan facilities and operating lines of credit:

Term loan facilities	Principal	Interest rate	Maturity date	Unamortized transaction costs	Carrying value
FW LP term loan	$ 15,000	BA + 4.15%	Sep 26, 2017	$ (74)	$ 14,926
SGRS LP term loan	6,300	BA + 2.25%	Jun 19, 2018	(74)	6,226
ML LP term loan	34,600	BA + 2.50%	Aug 19, 2018	(204)	34,396
	$ 55,900			$ (352)	$ 55,548

Operating lines of credit	Maximum available	Interest rate	Maturity date	Amount drawn	Remainder Available for use
FW LP line of credit	$ 2,000	BA + 4.50%	Sep 26, 2017	$ -	$ 2,000
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
	$ 3,500			$ -	$ 3,500

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

The FW LP term loan and 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, 2016, the Company and FW LP were in compliance with all financial covenants associated with this facility.

The outstanding principal balance on the FW LP term loan will be repaid upon completion of the sale of the FW Rights as described in note 6(b).

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

The SGRS LP term loan and line of credit are subject to certain financial covenants, including a covenant for SGRS LP to maintain EBITDA for the trailing twelve-month period of at least $2.9 million. As at September 30, 2016, SGRS LP was in compliance with all financial covenants associated with this facility.

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

The ML LP term loan and line of credit are subject to certain financial covenants, including a covenant for ML LP to maintain a funded debt to EBITDA ratio of not more than 3.0:1.0. As at September 30, 2016, ML LP was in compliance with all financial covenants associated with this facility.

(Expressed in thousands of Canadian dollars)

9. Interest rate swaps

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 September 30, 2016:

	Notional amount	Fixed interest rate	Maturity date	Unrealized loss since inception
SGRS LP	$ 6,300	3.41%	Jun 19, 2018	$ 33
ML LP	34,600	3.62%	Aug 13, 2018	196
	$ 40,900			$ 229

10. Share capital:

As at September 30, 2016, 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, January 1, 2016	113,065,496	$ 230,357
Common shares issued in connection with:		
Roll-in of Sutton agents (Note 6(c))	455,392	1,044
Dividend reinvestment plan	384,938	845
Share options exercised	324,100	1,023
Restricted share units vested	23,561	58
Balance, September 30, 2016	114,253,487	$ 233,327

11. Share-based compensation:

(a) Restricted share units:

The number of restricted share units ("RSUs") outstanding is as follows:

	Restricted share units
Balance, January 1, 2016	433,218
Granted	105,821
Dividends earned	36,757
Vested	(45,050)
Balance, September 30, 2016	530,746

(Expressed in thousands of Canadian dollars)

11. Share-based compensation (continued):

(a) Restricted share units (continued):

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 has elected to receive at least 45% of his base salary related to 2016 in RSUs. The RSUs will be 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.

On April 11, 2016, the Company granted 11,812 RSUs to three directors and 20,430 RSUs to the Company's president and CEO with a grant date fair value of $2.29 per RSU. On August 16, 2016, the Company granted 21,769 RSUs to three directors and 12,585 RSUs to the Company's president and CEO with a grant date fair value of $2.15 per RSU. These RSUs vest in their entirety on March 31, 2017.

In addition, on April 11, 2016, the Company issued 39,225 RSUs to three directors at a grant date fair value of $2.29 per RSU, and will vest in their entirety on April 1, 2019.

The outstanding RSUs will be settled in common shares, unless the RSU holder elects to settle a portion of the RSUs in cash to pay the applicable withholding taxes. As a result of this option, the RSUs are accounted for as a compound instrument that includes an equity-settled portion and a cash-settled portion.

(b) Share options:

The following table summarizes information relating to outstanding and exercisable options as at September 30, 2016:

Exercise price	Number of options outstanding and exercisable	Weighted average remaining contractual life (years)
$ 1.50	154,500	1.75
$ 1.79	129,900	1.87
	284,400	1.81

Changes in the Company's outstanding options during the nine months ended September 30, 2016 are summarized below:

	Number of options	Weighted average exercise price
Balance, January 1, 2016	685,500	$ 1.92
Expired	(77,000)	2.12
Exercised	(324,100)	2.12
Balance, September 30, 2016	284,400	$ 1.63

(Expressed in thousands of Canadian dollars)

12. Other finance income (costs), net:

	Three months ended September 30, 2016	Three months ended September 30, 2015	Nine months ended September 30, 2016	Nine months ended September 30, 2015
Foreign exchange gain (loss)	$ (34)	$ (97)	$ 307	$ (105)
Interest expense on promissory note	-	(55)	-	(55)
Finance income	8	-	20	172
Amortization of deferred financing charges	(54)	(39)	(160)	(73)
Adjustment to and unwinding of discount on financial liabilities	-	(4)	-	(16)
Other finance income (costs), net	$ (80)	$ (195)	$ 167	$ (77)

13. Financial instruments:

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

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

The carrying value of current financial assets and liabilities approximate their fair value due to their short-term nature. The carrying value of the long-term bank loans approximates their fair value as these facilities bear interest at floating market interest rates. The fair value of the restricted share unit obligation is measured using Level 1 inputs. The fair value of the interest rate swap liabilities are measured using Level 2 inputs.

(Expressed in thousands of Canadian dollars)

13. Financial instruments (continued):

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

	September 30, 2016	December 31, 2015
Assets carried at amortized cost:		
Cash and cash equivalents	$ 7,954	$ 8,889
Royalties and management fees receivable	2,490	2,280
Amounts receivable	24	29
	$ 10,468	$ 11,198
Liabilities carried at amortized cost:		
Accounts payable and accrued liabilities	$ 1,362	$ 914
Loan associated with the asset held for sale	14,926	-
Long-term bank loans	40,622	55,388
	$ 56,910	$ 56,302
Liabilities carried at fair value:		
Restricted share unit obligation	$ 296	$ -
Interest rate swap liabilities	229	297
	$ 525	$ 297

14. Subsequent events:

On November 10, 2016, the Company held a Special Meeting whereby shareholders passed a special resolution to approve the reduction of the stated capital of the Company's common shares to $200.0 million, with a corresponding aggregate increase in retained earnings and contributed surplus.