

DIVERSIFIED ROYALTY CORP.

Notes to Consolidated Financial Statements
(Unaudited)
(Expressed in Canadian dollars)

Year ended December 31, 2014

8. Provisions and contingencies (continued):

(e) Claim by U.S. contractor:

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

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

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

Counsel for the Company have brought a motion to dismiss the third amended complaint for failure to plead enough facts to state a claim for relief that is plausible on its face. Success of this motion is not determinable at this time. If successful, the complaint will be dismissed as against the Company. If the Company is not successful on the motion, management intends to defend against this claim vigorously. Management considers that it is not probable that a liability will result and no amount has been recorded in the Company's financial statements in respect of the complaint.

9. Long-term liability:

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

Balance, January 1, 2013	\$	737,881
Paid during 2013		(79,000)
Adjustment to and unwinding of discount		(5,824)
		653,057
Less current portion		79,000
Balance, December 31, 2013	\$	574,057
