

DIVERSIFIED ROYALTY CORP.

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

Year ended December 31, 2014

3. Significant accounting policies (continued):

(o) Accounting standards and amendments issued but not yet adopted (continued):

- (i) On July 24, 2014 the IASB issued IFRS 9, Financial Instruments, and the IASB subsequently published amendments to IFRS 9. IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additional changes relating to financial liabilities. IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment, and new general hedge accounting requirements. The IASB has deferred the mandatory effective date of the existing chapters of IFRS 9 to annual periods beginning on or after January 1, 2018 and must be applied retrospectively with some exemptions. Earlier application is permitted.
- (ii) On May 28, 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 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 new standard is effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted.

(p) Comparative figures:

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

4. Royalty pool:

Annually on April 1, the Royalty Pool is adjusted to include gross sales from new Franworks restaurants that have been open for at least 365 consecutive days prior to April 1, less gross sales from any Franworks restaurants that have permanently closed during the preceding calendar year. In return for adding these net sales to the Royalty Pool, Franworks receives the right to indirectly acquire common shares of the Company through the issuance of Class B LP Units (the "Additional Entitlement"). The Additional Entitlement is determined based on 92.5% of the estimated net tax-adjusted royalty revenue added to the 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 Exchange Agreement.