Rethinking Residential Real Estate

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

for the Three Months Ended March 31, 2018

TRICON

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited (in thousands of U.S. dollars)

	Notes	March 31, 2018	December 31, 2017
ASSETS			
Cash		$ 11,809	$ 14,813
Amounts receivable		13,465	13,506
Prepaid expenses and deposits		674	622
Investments – Tricon Housing Partners	3, 4	309,273	306,637
Investments – Tricon American Homes	3, 4	1,012,757	884,115
Investments – Tricon Lifestyle Rentals	3, 4	90,759	89,225
Investments held for sale – Tricon Lifestyle Communities	3, 4	63,946	62,074
Intangible assets	9	18,893	20,016
Deferred income tax assets	8	26,787	23,937
Other assets	10	17,033	15,778
Total assets		**$ 1,565,396**	**$ 1,430,723**
LIABILITIES			
Amounts payable and accrued liabilities	6	$ 6,432	$ 11,273
Dividends payable	11	7,251	6,906
Long-term incentive plan	14	16,145	15,224
Debt	5	448,738	383,604
Deferred income tax liabilities	8	57,647	47,927
Derivative financial instruments	7	8,241	37,494
Total liabilities		**544,454**	**502,428**
Equity			
Share capital	12	715,288	713,553
Contributed surplus		16,426	16,754
Cumulative translation adjustment		20,420	19,184
Retained earnings		258,907	167,849
Total shareholders' equity		1,011,041	917,340
Non-controlling interest		9,901	10,955
Total equity		**1,020,942**	**928,295**
Total liabilities and equity		**$ 1,565,396**	**$ 1,430,723**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

Approved by the Board of Directors

David Berman

Michael Knowlton

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Unaudited (in thousands of U.S. dollars, except per share amounts which are in U.S. dollars, unless otherwise indicated)

For the three months ended	Notes	March 31, 2018	March 31, 2017
Revenue			
Contractual fees	2, 15	$ 5,203	$ 5,408
General partner distributions	2, 15	356	333
Performance fees	2, 15	8	3
		5,567	5,744
Investment income			
Investment income – Tricon Housing Partners	15, 16	2,885	5,668
Investment income – Tricon American Homes	15, 16	86,442	12,269
Investment income – Tricon Lifestyle Rentals	15, 16	1,017	1,931
		90,344	19,868
		95,911	25,612
Expenses			
Compensation expense	14	9,723	5,212
General and administration expense		2,324	1,860
Interest expense	5	7,964	3,316
Net change in fair value of derivative financial instruments	7	(29,253)	4,167
Transaction costs		98	936
Amortization and depreciation expense		1,233	1,401
Realized and unrealized foreign exchange (gain) loss		(1,688)	704
		(9,599)	17,596
Income before income taxes		**105,510**	**8,016**
Income tax expense – current	8	(981)	(1,118)
Income tax expense – deferred	8	(8,585)	(1,144)
Net income from continuing operations		**$ 95,944**	**$ 5,754**
Investment income from discontinued operations – Tricon Lifestyle Communities	15, 16	1,568	2,319
Income tax recovery (expense) from discontinued operations – deferred	8	1,957	(318)
Net income from discontinued operations		**$ 3,525**	**$ 2,001**
Net income		**$ 99,469**	**$ 7,755**
Attributable to:			
Shareholders of Tricon		$ 99,727	$ 7,871
Non-controlling interest		(258)	(116)
Net income		**$ 99,469**	**$ 7,755**
Other comprehensive income			
Items that will be reclassified subsequently to net income			
Cumulative translation reserve		1,236	605
Comprehensive income for the period		**$ 100,705**	**$ 8,360**
Attributable to:			
Shareholders of Tricon		$ 100,963	$ 8,476
Non-controlling interest		(258)	(116)
Comprehensive income for the period		**$ 100,705**	**$ 8,360**
Basic earnings per share attributable to shareholders of Tricon			
Continuing operations	13	$ 0.72	$ 0.05
Discontinued operations	13	0.02	0.02
Basic earnings per share attributable to shareholders of Tricon	13	**$ 0.74**	**$ 0.07**
Diluted earnings per share attributable to shareholders of Tricon			
Continuing operations	13	$ 0.44	$ 0.05
Discontinued operations	13	0.02	0.02
Diluted earnings per share attributable to shareholders of Tricon	13	**$ 0.46**	**$ 0.07**
Weighted average shares outstanding – basic	13	**134,245,883**	**113,535,527**
Weighted average shares outstanding – diluted	13	**162,013,381**	**115,914,567**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of U.S. dollars)

	Notes	Share capital	Contributed surplus	Cumulative translation adjustment	Retained earnings	Total shareholders' equity	Non-controlling interest	Total
Balance at January 1, 2018		**$ 713,553**	**$ 16,754**	**$ 19,184**	**$ 167,849**	**$ 917,340**	**$ 10,955**	**$ 928,295**
Net income		–	–	–	99,727	99,727	(258)	99,469
Cumulative translation reserve		–	–	1,236	–	1,236	–	1,236
Distributions to non-controlling interest		–	–	–	–	–	(796)	(796)
Dividends/Dividend reinvestment plan	11	2,426	–	–	(7,246)	(4,820)	–	(4,820)
Repurchase of common shares	12	(2,310)	–	–	(1,423)	(3,733)	–	(3,733)
Stock options	14	441	265	–	–	706	–	706
Deferred share units	14	1,178	(593)	–	–	585	–	585
Balance at March 31, 2018		**$ 715,288**	**$ 16,426**	**$ 20,420**	**$ 258,907**	**$ 1,011,041**	**$ 9,901**	**$ 1,020,942**
Balance at January 1, 2017		**$ 567,677**	**$ 15,835**	**$ 18,711**	**$ 127,691**	**$ 729,914**	**$ 13,747**	**$ 743,661**
Net income		–	–	–	7,871	7,871	(116)	7,755
Cumulative translation reserve		–	–	605	–	605	–	605
Distributions to non-controlling interest		–	–	–	–	–	(848)	(848)
Dividends/Dividend reinvestment plan	11	1,362	–	–	(5,515)	(4,153)	–	(4,153)
Stock options	14	20	380	–	–	400	–	400
Deferred share units	14	493	(533)	–	–	(40)	–	(40)
Balance at March 31, 2017		**$ 569,552**	**$ 15,682**	**$ 19,316**	**$ 130,047**	**$ 734,597**	**$ 12,783**	**$ 747,380**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of U.S. dollars)

For the three months ended	Notes	March 31, 2018	March 31, 2017
CASH PROVIDED BY (USED IN)			
Operating activities			
Net income		$ 99,469	$ 7,755
Adjustments for non-cash items			
Amortization and depreciation expense	9, 10	1,233	1,401
Deferred income taxes	8	6,628	1,462
Long-term incentive plan	14	2,066	(607)
Annual incentive plan	14	4,049	2,438
Amortization of debenture discount and issuance costs		1,686	583
Accrued investment income – Tricon Housing Partners	4	(2,885)	(5,668)
Accrued investment income – Tricon American Homes	4	(86,442)	(12,269)
Accrued investment income – Tricon Lifestyle Rentals	4	(1,017)	(1,931)
Accrued investment income – Tricon Lifestyle Communities	4	(1,568)	(2,319)
Net change in fair value of derivative financial instruments	7	(29,253)	4,167
Unrealized foreign exchange gain		(4,413)	(1,138)
Distributions to non-controlling interest		(796)	(848)
Advances made to investments	4	(48,466)	(54,947)
Distributions received from investments	4	5,998	22,741
		(53,711)	(39,180)
Changes in non-cash working capital items	19	(4,852)	(2,897)
Net cash (used in) provided by operating activities from continuing operations		**(58,563)**	**(42,077)**
Advances made to investments held for sale	4	(304)	–
Net cash (used in) provided by operating activities from discontinued operations		**(304)**	**–**
Net cash (used in) provided by operating activities		**(58,867)**	**(42,077)**
Investing activities			
Purchase of building, furniture, office and computer equipment, and leasehold improvements	10	(1,365)	(38)
Net cash (used in) provided by investing activities		**(1,365)**	**(38)**
Financing activities			
Repurchase of common shares	12	(3,733)	–
Debt financing	5	65,505	(113,750)
Issuance of convertible debentures – net of deferred financing costs	5	–	164,950
Dividends paid	11	(4,531)	(4,194)
Net cash (used in) provided by financing activities		**57,241**	**47,006**
Effect of foreign exchange rate difference on cash		**(13)**	**9**
Change in cash during the period		**(3,004)**	**4,900**
Cash – beginning of period		**14,813**	**17,780**
Cash – end of period		**$ 11,809**	**$ 22,680**
Supplementary information			
Cash paid on			
Income taxes		**$ 587**	**$ 2,228**
Interest		**$ 8,966**	**$ 3,209**

The accompanying notes are an integral part of these condensed interim consolidated financial statements.

1. NATURE OF BUSINESS

Tricon Capital Group Inc. ("Tricon" or the "Company") is a principal investor and asset manager focused on the residential real estate industry in North America. In the principal investment portfolios, the Company primarily invests through Tricon Housing Partners, Tricon American Homes, Tricon Lifestyle Rentals and Tricon Lifestyle Communities. In Private Funds and Advisory, the Company manages, on behalf of and in partnership with private investors, commingled funds, separate accounts and side-car investments that invest in the development of real estate in North America and generate contractual fee income for the Company.

Tricon was incorporated on June 16, 1997 under the Business Corporations Act (Ontario) and its head office is located at 7 St. Thomas Street, Suite 801, Toronto, Ontario, M5S 2B7. The Company is domiciled in Canada. Tricon became a public company on May 20, 2010, and its common shares are listed on the Toronto Stock Exchange (TSX) (symbol: TCN).

These condensed interim consolidated financial statements were approved for issue on May 8, 2018 by the Board of Directors of Tricon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies applied in the preparation of these condensed interim consolidated financial statements.

Basis of preparation and measurement

The condensed interim consolidated financial statements are prepared on a going-concern basis and have been presented in U.S. dollars, which is also the Company's functional currency. All financial information is presented in thousands of U.S. dollars except where otherwise indicated.

These condensed interim consolidated financial statements have been prepared under the historical cost convention, except for (i) investments in Tricon Housing Partners, Tricon American Homes, Tricon Lifestyle Rentals and Tricon Lifestyle Communities (held for sale), and (ii) derivative financial instruments, which are recorded at fair value through profit or loss ("FVTPL").

The Company presents its condensed interim consolidated balance sheet with its assets and liabilities in decreasing order of liquidity. The notes to the condensed interim consolidated financial statements provide information on the Company's current assets and current liabilities (Note 17). The Company believes this presentation is more relevant given the nature of the Company's operations, which do not have specifically identifiable operating cycles.

These condensed interim consolidated financial statements have been prepared using the same significant accounting policies and methods as those used in the Company's annual financial statements for the year ended December 31, 2017, except as described below.

Accounting standards adopted in the current year

Effective January 1, 2018, the Company has adopted IFRS 15, Revenue from Contracts with Customers, on a modified retrospective basis. The IFRS 15 revenue recognition model requires management to exercise significant judgment and make estimates that affect revenue recognition. In applying IFRS 15, the Company used the practical expedient in the standard that permits contracts which were completed prior to the transition date to not be assessed. There were no adjustments to the balance sheet as at January 1, 2018 as a result of adopting IFRS 15. The accounting policies applied under the new standard are disclosed under Revenue from contracts with customers below.

IFRS 9, Financial Instruments, was issued by the IASB in July 2014 and replaced IAS 39, Financial Instruments: Recognition and Measurement.

The Company performed an in-depth assessment of IFRS 9 to determine the impact of the adoption of the standard on the Company's consolidated financial statements. The Company's equity investments are required to be held at fair value through profit or loss under IFRS 9. There were no amounts recognized in relation to these assets from the adoption of IFRS 9 as the Company already held these instruments at fair value through profit or loss under IAS 39.

Under IFRS 9, accounts receivable are subsequently measured at amortized cost less provision for impairment. A provision for impairment is established based on the simplified expected credit loss ("ECL") model. Under the simplified ECL model, the Company estimates lifetime expected losses for its receivables at each balance sheet date based on available information. Given the short-term nature of the Company's accounts receivable, the history of default and the creditworthiness of the counterparties, there was no impact on the carrying value of the Company's accounts receivables on the adoption of IFRS 9.

Following the adoption of IFRS 9, the Company can no longer defer the recognition of a gain or loss from the refinancing of a borrowing during the interim period. Under the Company's previous accounting policies, the Company first assessed if the refinancing was treated as an extinguishment under IFRS 9 by determining whether the refinancing significantly changed the cash flows of the loan. If it was determined to be a modification, gains or losses would have been recognized over the remaining life of the borrowing by adjusting the effective interest rate, on the basis that the terms and conditions of the facility remained largely unchanged. No retrospective adjustments were required in relation to this change in accounting policy as none of the borrowings outstanding on January 1, 2018 had been refinanced in prior periods. No refinancing occurred during the first quarter of 2018.

IFRS 9 also introduces a new hedge accounting standard. The Company does not currently apply hedge accounting, and therefore is not impacted by this aspect of IFRS 9.

On January 13, 2016, the IASB issued IFRS 16, Leases, which will replace IAS 17, Leases. IFRS 16 sets out the principles for the recognition, measurement and disclosure of leases. IFRS 16 provides revised guidance on identifying a lease and for separating lease and non-lease components of a contract. IFRS 16 introduces a single accounting model for all lessees and requires a lessee to recognize right-of-use assets and lease liabilities for leases with terms of more than 12 months, unless the underlying asset is of low value. Under IFRS 16, lessor accounting for operating and finance leases will remain substantially unchanged. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier application permitted for entities that apply IFRS 15.

The Company has also adopted IFRS 16 in its consolidated financial statements effective January 1, 2018, together with its adoption of IFRS 15. The adoption of IFRS 16 did not have a material impact on the Company's consolidated financial statements as the Company has no significant operating lease arrangements.

In November 2016, the IFRS Interpretations Committee issued IFRIC 22, Foreign Currency Transactions and Advance Consideration. The interpretation clarifies that the date of foreign currency transactions for purposes of determining the exchange rate to use on initial recognition of the related asset, expense or income is the date on which an entity initially recognizes the non-monetary asset or liability arising from the payment or receipt of advance consideration. The adoption of IFRIC 22 did not have a material impact on the Company's consolidated financial statements as the Company has no significant foreign currency advance transactions with a third party.

Revenue from contracts with customers

Revenues from contracts with customers comprise contractual fees, general partner distributions and performance fees. The Company earns contractual fees by managing an investment portfolio of residential real estate assets on behalf of and in partnership with third-party investors in the U.S. and Canada. Specifically, the Company earns contractual fees in exchange for providing asset management services to private investment vehicles, including private commingled funds, separate accounts, side-cars and syndicated investments ("Investment Vehicles"). This includes managing investments in land and homebuilding assets through Tricon Housing Partners and Tricon Lifestyle Rentals. Asset management services are satisfied over time and revenues for such services are recognized as services are provided. The Company recognizes revenue based on the best estimate of the amounts earned for those services, which typically reflects annual contractual fees of 1–2% of committed or invested capital throughout the life of the Investment Vehicles. Contractual fees earned in exchange for providing asset management services are billed on a quarterly basis.

The Company also earns contractual fees in exchange for providing development management and advisory services to third parties and/or related parties through The Johnson Companies LP ("Johnson") and Tricon Development Group Ltd. ("TDG"). Development management and advisory services are satisfied over time. Revenues are recognized based on the best estimate of the amounts earned for those services, which typically reflects contractual fees of 2–4% of the sales price of single-family lots, residential land parcels and commercial land within master-planned communities for Johnson, and 4–5% of overall development costs of purpose-built rental apartments for TDG. The Company includes consideration in the transaction price only to the extent that it is highly probable that a significant amount of the cumulative revenue recognized will not reverse. Specifically for Johnson, consideration for these services is variable as it is dependent upon the occurrence of a future event that is the sale of the developed property. Revenue is typically recognized as the development of the investment property is complete, and control has been transferred to the respective buyer. Contractual fees earned in exchange for providing development management and advisory services are billed upon the sale of the investment property.

General partner distributions are similar to contractual fees in that they are earned in exchange for providing asset management services to certain private Investment Vehicles. The timing and pattern of revenue recognition are consistent with contractual fees earned from providing asset management services.

The Company earns performance fees in exchange for providing asset management services to Investment Vehicles. Performance fees are earned once targeted returns are achieved. Performance fees are calculated based on fixed percentages of the distributions of each of the Investment Vehicles in excess of predetermined thresholds as outlined in the governing documents for the respective Investment Vehicle. The Company includes consideration in the transaction price only to the extent that it is highly probable that a significant amount of the cumulative revenue recognized will not reverse. Consideration for these services is variable as it is dependent upon the occurrence of a future event that is the repayment of investor capital and a predetermined rate of return. Revenue from performance fees is typically earned and recognized towards the end of the life of the Investment Vehicle.

The Company is obligated to continue to provide asset management and development management and advisory services over the remaining terms of the contracts with its customers. The Company will recognize revenue on these remaining performance obligations based on the amounts determined in accordance with the above policy, at each reporting date. Determining the timing of the satisfaction of performance obligations and estimating the transaction price are significant judgments applied in the adoption of IFRS 15. As it relates to the expected amount of revenue earned for the performance of development management and advisory services, the Company uses the most likely amount method to estimate the variable consideration to include in the transaction price. This is because the amount of revenue earned is dependent upon a future event that is the sale of the developed properties.

Accounting standards and interpretations issued but not yet adopted

In June 2016, the IASB issued an amendment to IFRS 2, Share-Based Payments, addressing (i) certain issues related to the accounting for cash-settled awards, and (ii) the accounting for equity-settled awards that include a "net settlement" feature in respect of employee withholding taxes. This amendment is effective for annual periods beginning on or after January 1, 2019. The Company is currently reviewing the amendment to assess the impact it may have upon adoption.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the Company.

3. INVESTMENTS

Investments – Tricon Housing Partners ("THP") are land and homebuilding investments or co-investments in funds, separate accounts and side-car investments managed by the Company.

Investments – Tricon American Homes ("TAH") are investments in U.S. single-family rental homes. The investments are managed through an integrated business platform managed by the operating entity, which is responsible for the acquisition, renovation and leasing of the homes.

Investments – Tricon Lifestyle Rentals ("TLR") are investments in Canadian and U.S. Class A purpose-built rental apartments.

Investments – Tricon Lifestyle Communities ("TLC") are investments in U.S. manufactured housing communities that lease land to owners of prefabricated homes. Investments in TLC were classified as held for sale during the quarter.

The Company makes these investments via equity investments and loan advances. Advances made to investments are added to the carrying value when paid; distributions from investments are deducted from the carrying value when received. The following is a summary of the composition of the Company's investments:

	March 31, 2018			December 31, 2017		
(in thousands of U.S. dollars)	Internal debt instruments	Equity	Total investment	Internal debt instruments	Equity	Total investment
Investments – THP						
U.S. commingled funds	$ –	$ 119,619	$ 119,619	$ –	$ 119,714	$ 119,714
Canadian commingled funds	–	9,471	9,471	–	9,651	9,651
Separate accounts and side-cars	21,548	158,635	180,183	21,903	155,369	177,272
	21,548	287,725	309,273	21,903	284,734	306,637
Investments – TAH	–	1,012,757	1,012,757	–	884,115	884,115
Investments – TLR	–	90,759	90,759	–	89,225	89,225
Investments held for sale – TLC	–	63,946	63,946	–	62,074	62,074
Total	**$ 21,548**	**$ 1,455,187**	**$ 1,476,735**	**$ 21,903**	**$ 1,320,148**	**$ 1,342,051**

The underlying loan instruments within the Company's Tricon Housing Partners investments, if utilized, are denominated in U.S. dollars and bear interest at rates between 9.95% and 11.95%, compounded monthly.

Each investment vertical may utilize debt in order to finance normal business operations, with the debt secured by the underlying assets of the related investment. The Company has provided specific guarantees to the lenders of the TAH warehouse facility, the TLC mortgages and the TLR land and construction loans, on a non-recourse basis subject only to specific carved-out events in the case of the TAH and TLC guarantees.

The following tables summarize the balances in the investment funds that are managed by Tricon, presented in the functional currency of the fund:

(in thousands of dollars) THP Investments	Currency	Tricon commitment	Advances	Unfunded commitment	Project fees	Cash distributions	Total distributions	Investments at fair value[2]
As at March 31, 2018[1]								
THP1 US[3,4]	USD	$ 226,775	$ 269,855	$ 10,796	$ –	$ 276,336	$ 276,336	$ 92,306
THP2 US	USD	25,000	21,415	3,585	–	28	28	27,313
THP US SP1 LP	USD	6,330	5,331	999	650	1,592	2,242	5,200
THP US SP2 LP	USD	5,760	5,210	550	275	205	480	5,756
Cross Creek Ranch	USD	12,960	12,484	476	6,309	15,145	21,454	8,382
Fulshear Farms	USD	5,000	3,255	1,745	650	–	650	3,246
Grand Central Park	USD	9,785	8,526	1,259	3,669	1,598	5,267	9,324
Trilogy at Verde River	USD	12,600	10,312	2,288	3,718	–	3,718	9,638
Viridian	USD	25,400	26,860	1,047	3,408	5,775	9,183	27,396
Trinity Falls	USD	91,750	81,549	10,201	1,153	–	1,153	97,681
Side-cars	USD	23,613	19,459	4,154	5,866	627	6,493	13,560
Total USD investments		**$ 444,973**	**$ 464,256**	**$ 37,100**	**$ 25,698**	**$ 301,306**	**$ 327,004**	**$ 299,802**
THP3 Canada	CAD	20,000	12,299	7,701	–	4,398	4,398	9,471
Total CAD investments		**$ 20,000**	**$ 12,299**	**$ 7,701**	**$ –**	**$ 4,398**	**$ 4,398**	**$ 9,471**
Investments – THP								**$ 309,273**
As at December 31, 2017[1]								
THP1 US[3,4]	USD	$ 226,775	$ 269,676	$ 10,975	$ –	$ 275,474	$ 275,474	$ 92,731
THP2 US	USD	25,000	21,125	3,875	–	28	28	26,983
THP US SP1 LP	USD	6,330	5,331	999	554	1,592	2,146	5,051
THP US SP2 LP	USD	5,760	5,210	550	211	115	326	5,688
Cross Creek Ranch	USD	12,960	12,484	476	6,218	14,597	20,815	8,887
Fulshear Farms	USD	5,000	3,255	1,745	650	–	650	3,246
Grand Central Park	USD	9,785	8,526	1,259	3,486	1,598	5,084	9,128
Trilogy at Verde River	USD	12,600	10,312	2,288	3,461	–	3,461	9,739
Viridian	USD	25,400	26,860	1,047	3,079	5,775	8,854	27,396
Trinity Falls	USD	91,750	81,549	10,201	949	–	949	95,301
Side-cars	USD	23,613	18,479	5,134	5,515	429	5,944	12,836
Total USD investments		**$ 444,973**	**$ 462,807**	**$ 38,549**	**$ 24,123**	**$ 299,608**	**$ 323,731**	**$ 296,986**
THP3 Canada	CAD	20,000	12,299	7,701	–	3,580	3,580	9,651
Total CAD investments		**$ 20,000**	**$ 12,299**	**$ 7,701**	**$ –**	**$ 3,580**	**$ 3,580**	**$ 9,651**
Investments – THP								**$ 306,637**

(1) Commitment, unfunded commitment, advances and distributions are shown in fund or separate account originating currency.

(2) Investments at fair value as of March 31, 2018 and December 31, 2017 are shown in thousands of U.S. dollars.

(3) $226,775 represents the Company's total fund commitment; the purchase price of the 68.4% interest was $260,500.

(4) The cumulative actual cash distributions received from THP1 US was reduced by $9,529 of withholding tax.

4. FAIR VALUE ESTIMATION

In the fair value hierarchy, the level in which the fair value measurement is categorized is determined on the basis of the lowest level input that is significant to the fair value measurement. For this purpose, the significance of the input is assessed against the fair value measurement. Assessing the significance of a particular input to the fair value measurement requires judgment, considering factors specific to the asset or liability.

The following describes the categories within the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The following table provides information about financial assets and liabilities measured at fair value on the balance sheet and categorized by level according to the significance of the inputs used in making the measurements:

	March 31, 2018			December 31, 2017		
(in thousands of U.S. dollars)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Investments – THP						
U.S. commingled funds	$ –	$ –	$ 119,619	$ –	$ –	$ 119,714
Canadian commingled funds	–	–	9,471	–	–	9,651
Separate accounts and side-cars	–	–	180,183	–	–	177,272
	–	–	309,273	–	–	306,637
Investments – TAH	–	–	1,012,757	–	–	884,115
Investments – TLR	–	–	90,759	–	–	89,225
Investments held for sale – TLC	–	–	63,946	–	–	62,074
	$ –	**$ –**	**$ 1,476,735**	**$ –**	**$ –**	**$ 1,342,051**
Financial liabilities						
Derivative financial instruments (Note 7)	$ –	$ 8,241	$ –	$ –	$ 37,494	$ –

There have been no transfers between levels for the three months ended March 31, 2018.

Financial assets valuation methodologies

The Company's Valuation Committee is responsible for fair value measurements included in the financial statements, including Level 3 measurements. The valuation processes and results are reviewed and approved by the Valuation Committee at least once every quarter, in line with the Company's quarterly reporting dates. The Valuation Committee consists of individuals who are knowledgeable and have experience in the fair value techniques for the investments held by the Company. The Valuation Committee decides on the appropriate valuation methodologies for new investments and contemplates changes in the valuation methodology for existing investments. Additionally, the Valuation Committee analyzes the movements in each investment's value, which involves assessing the validity of the inputs applied in the valuation. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

The Company used the following techniques to determine the fair value measurements included in the financial statements categorized in Level 3:

Investments – Tricon Housing Partners

Tricon establishes wholly-owned subsidiaries that invest in limited partnerships as a limited partner. The investments are measured at fair value as determined by the Company's proportionate share of the fair value of each limited partnership's net assets at each measurement date. The fair values of each limited partnership's net assets are calculated by determining the fair values of the underlying projects using discounted cash flows, appraised values or share prices as reported on the appropriate stock exchange.

In addition to the investments in limited partnerships, the Company invests in separate accounts and side-car investments through limited partnerships with other third parties. Tricon's ownership interests in these investments are held through the Company's wholly-owned subsidiaries. The investments are measured at fair value as determined by the waterfall distribution calculations specified in the relevant limited partnership agreement. The inputs into the waterfall distribution calculations include the fair value of the land and working capital held by the limited partnerships. The fair value of the land is based on appraisals prepared by an external third-party valuator or on internal valuations.

(in thousands of U.S. dollars, except per share amounts and percentage amounts)

A side-car is a co-investment vehicle under common sponsorship with a Tricon fund. Tricon's ownership interests in the side-cars are held through the Company's wholly-owned subsidiaries. A side-car generally participates in larger investment opportunities provided by the fund sponsor or general partner. The measurement and valuation methodologies for side-cars are the same as those for the limited partnership investments.

Quantitative information about fair value measurements of the investments uses the following significant unobservable inputs (Level 3):

			March 31, 2018		December 31, 2017		
Description	Valuation technique(s)	Significant unobservable input	Range of inputs	Weighted average of inputs	Range of inputs	Weighted average of inputs	Other inputs and key information
Debt investments	Net asset value, determined using discounted cash flow	a) Discount rate[1] b) Future cash flow[2]	10.0% – 12.0% 3 – 6 years	11.4% 4.9 years	10.0% – 12.0% 3 – 6 years	11.4% 4.9 years	Estimated probability of default
Equity investments Commingled funds	Net asset value, determined using discounted cash flow	a) Discount rate[1] b) Future cash flow[2]					Entitlement risk, sales risk and construction risk are taken into account in determining the discount rate. **U.S. funds:** Lower of 20% and the expected return for the project, subsequently adjusted downward as development risk is mitigated over project life. **Canadian funds:** Discounted at contractual interest rate; may include contingent interest cash flows (received when developers' project returns exceed the underlying contractual interest), which is discounted using the same method as U.S. funds.
THP1 US			12.5% – 20.0% 1 – 4 years	14.7% 2.6 years	12.5% – 20.0% 1 – 4 years	14.7% 2.8 years	
THP2 US			12.5% – 20.0% 1 – 10 years	15.2% 1.5 years	12.5% – 20.0% 1 – 10 years	15.0% 1.3 years	
THP3 Canada			8.0% – 18.0% 2 – 8 years	10.8% 2.1 years	8.0% – 18.0% 2 – 8 years	10.9% 2.4 years	
Separate accounts and side-cars	Waterfall distribution model	a) Discount rate[1] b) Future cash flow[2] c) Appraised value[3]	15.0% – 24.0% 1 – 18 years	N/A[3] 13.7 years	15.0% – 24.0% 1 – 18 years	N/A[3] 14.0 years	Entitlement risk, sales risk and construction risk are taken into account in determining the discount rate. Price per acre of land, timing of project funding requirements and distributions.

(1) Generally, an increase in future cash flow will result in an increase in the fair value of debt instruments and fund equity investments. An increase in the discount rate will result in a decrease in the fair value of debt instruments and fund equity investments. The same percentage change in the discount rate will result in a greater change in fair value than the same absolute percentage change in future cash flow.

(2) Estimating future cash flows involves modelling developers' cash flows to determine the quantum and timing of project funding requirements and cash distributions to the investment vehicle. Estimates of developers' cash flows are based on detailed quarterly and annual budgets and include estimates of construction and development costs, anticipated selling prices and absorption ratios for each project.

(3) On an annual basis, the Company obtains external valuations for its separate account equity and side-car investments. As at December 31, 2017, the external valuations for Tricon's interest in eight separate account equity and side-car investments totaled $49,329. The Company's investment team and finance team verify all major inputs to the valuation and review the results with the independent appraiser. The significant input within the appraised value is the value of land per acre. Management has assessed whether any market changes have occurred subsequent to the date of valuation and has determined that the value remained valid at March 31, 2018.

Sensitivity

The effects on the fair value of Investments – Tricon Housing Partners of a 1% change in the discount rates are as follows:

		March 31, 2018		December 31, 2017	
(in thousands of dollars)	Currency	1% increase	1% decrease	1% increase	1% decrease
U.S. commingled funds	USD	$ (920)	$ 942	$ (1,067)	$ 1,094
Canadian commingled funds	CAD	(171)	176	(165)	169
Separate accounts and side-cars	USD	(3,016)	3,197	(3,002)	3,186

Investments – Tricon American Homes

All of the Company's investments in TAH subsidiary entities are held through a wholly-owned subsidiary, Tricon SF Home Rental ULC, which is recorded at fair value. The fair value of the Company's investment in Tricon SF Home Rental ULC is calculated based on the underlying net assets' fair value. The fair value of net assets of the various entities is based on a sum-of-the-parts approach, where assets and liabilities are measured at fair value individually.

Home values typically do not change materially in the short term, and capital expenditures generally do not significantly impact values in the first three months after purchase. As a result, homes acquired in the current quarter are recorded at their purchase price plus the cost of capital expenditures, if applicable. Homes acquired prior to January 1, 2018 were valued at February 28, 2018. Management has assessed the impact of any market changes that have occurred subsequent to the date of valuation and has determined that values were valid at March 31, 2018.

During the three months ended March 31, 2018, the Broker Price Opinion ("BPO") valuation methodology was used to determine the fair value of 2,674 of TAH's rental properties. The remainder of the rental properties, including those previously valued by BPO, had their values updated using the Home Price Index ("HPI") methodology. The HPI is calculated based on a repeat-sales model using large real estate information databases compiled from public records. Twelve-month trailing HPI was used where the quarterly HPI change was determined by averaging the index movement over the past twelve months. The quarterly HPI change is then applied to the previously recorded fair value of the investment properties. The data used to fair value the rental properties is specific to the zip code in which the property is located.

In addition to the investment properties generating rental income, a small percentage of the investment properties are held for sale ("for sale homes"). These for sale homes were originally purchased as rental properties but subsequently selected for sale through the investee's active asset management process. All for sale homes are valued at fair value less costs to sell.

The fair value of external debt is based on a discounted cash flow model at a market rate of interest that TAH would have obtained for similar financing. Deferred income taxes are based on the enacted tax rates for future years. Working capital approximates fair value.

Debt

A summary of TAH's debt outstanding as of March 31, 2018 is as follows:

			Debt balance[3]	
(in thousands of U.S. dollars)	Effective interest rates	Maturity dates	March 31, 2018	December 31, 2017
Silver Bay acquisition warehouse facility[1]	LIBOR+3.28%	May 2018	$ 154,570	$ 155,828
Warehouse credit facility[2]	LIBOR+3.00%	October 2019	216,251	184,167
Securitization loan, TAH 2016-1	3.59%	November 2021	362,470	362,601
Securitization loan, TAH 2017-1	3.50%	September 2022	462,594	462,594
Term loan	LIBOR+2.00%	October 2022	347,582	347,582
Securitization loan, TAH 2017-2	3.58%	January 2024	365,000	365,000
Total debt			**$ 1,908,467**	**$ 1,877,772**

(1) The Silver Bay acquisition warehouse facility has two six-month extension options.

(2) The warehouse credit facility has a one-year extension option.

(3) The fair value of debt at TAH approximates cost.

Subsequent to quarter-end, TAH closed a new securitization loan, TAH 2018-1, which involved the issuance and sale of six classes of fixed-rate pass-through certificates with a weighted average coupon of 3.86% and a term to maturity of seven years. The gross transaction proceeds represent approximately 61% of the value of the securitized portfolio and approximately 81% of its all-in cost. The certificates have a face amount of approximately $314,000 and $280,000 of the proceeds was used to repay the existing TAH warehouse facilities.

(in thousands of U.S. dollars, except per share amounts and percentage amounts)

Sensitivity

As of March 31, 2018, TAH, and the Company where applicable as its sponsor, were in compliance with the financial covenants and other undertakings outlined in the loan agreements. The one-month LIBOR during the three months ended March 31, 2018 ranged from 1.56% to 1.67%. If interest rates had been 50 basis points lower, with all other variables held constant, investment income in TAH for the three months ended March 31, 2018 would have been $879 (2017 – $82) higher. If interest rates had been 50 basis points higher, with all other variables held constant, investment income in TAH for the three months ended March 31, 2018 would have been $769 (2017 – $82) lower.

If the prices of single-family rental homes held by TAH were to increase or decrease by 1% (December 31, 2017 – 1%), the impact on investments in TAH fair value at March 31, 2018 would be $28,090 and ($28,090), respectively (December 31, 2017 – $26,613 and ($26,613)).

The weighted average of the quarterly HPI change was 1.5%. If the change in the quarterly HPI increased or decreased by 0.5%, the impact on investments in TAH fair value at March 31, 2018 would be $10,876 and ($10,876), respectively (December 31, 2017 – $8,206 and ($8,206)).

Investments – Tricon Lifestyle Rentals

The Company's investment in TLR Canada is held through a wholly-owned subsidiary, Tricon Luxury Residences Co-Investment Inc. Its investment in TLR U.S. is held through a wholly-owned subsidiary, Tricon SLR US Multifamily LLC. Both subsidiaries carry their investments at fair value. The fair values of the investments in TLR are estimated based on the subsidiaries' proportionate share of the net assets of TLR limited partnerships. The fair value of the net assets is based on a sum-of-the-parts approach, where assets and liabilities are measured at fair value individually.

Quantitative information about fair value measurements of the investments uses the following significant unobservable inputs (Level 3):

Description	Valuation technique(s)	Significant unobservable input	March 31, 2018 Range of inputs	March 31, 2018 Weighted average of inputs	December 31, 2017 Range of inputs	December 31, 2017 Weighted average of inputs	Other inputs and key information
TLR Canada	Waterfall distribution model Net asset value, determined using income approach	a) Discount rate[1] b) Future cash flow[2] c) Appraised value[3]	9.0% – 10.0% 1 – 3 years	9.3% 1.7 years	9.0% – 10.0% 1 – 3 years	9.3% 1.7 years	Construction risk and leasing risk are taken into account in determining the discount rate. Price per square foot, timing of project funding requirements and distributions.
TLR U.S.	Net asset value, determined using discounted cash flow	a) Discount rate[1] b) Future cash flow[2]	14.0% – 14.5% 1 – 2 years	14.25% 1.9 years	14.0% – 14.5% 2 – 3 years	14.25% 2.2 years	Entitlement risk, leasing risk and construction risk are taken into account in determining the discount rate. Discounted at expected return for the project, subsequently adjusted downward as development risk is mitigated over project life.

(1) Generally, an increase in future cash flow will result in an increase in the fair value of the investments. An increase in the discount rate will result in a decrease in the fair value of investments. The same percentage change in the discount rate will result in a greater change in fair value than the same absolute percentage change in future cash flow.

(2) Estimating future cash flows involves modelling developers' or projects' cash flows to determine the quantum and timing of project funding requirements and cash distributions. Estimates of cash flows are based on annual budgets and include estimates of construction and development costs, anticipated selling/leasing prices and absorption rates for each project.

(3) On an annual basis, the Company obtains external valuations dated December 1 for certain TLR Canada investments. The Company's investment team and finance team verify all major inputs to the valuation and review the results with the independent appraiser. The significant input within the appraised value is the value of land per square foot. Management has assessed whether any significant market changes have occurred subsequent to the date of valuation and has determined that the value remained unchanged at March 31, 2018.

Subsequent to quarter-end, TLR Canada announced its participation in a partnership (the "Partnership") to develop and manage a new rental apartment community in Toronto's West Don Lands. The Partnership, which includes Tricon/TLR, Dream Unlimited Corp. and Kilmer Group on an equal ownership basis, has been selected to enter into 99-year land leases for land parcels that will be developed into approximately 1,500 rental units as well as ancillary retail and potential office space.

Sensitivity

For those investments valued using discounted cash flows, an increase of 1% in the discount rate results in a decrease in fair value of $1,287, and a decrease of 1% in the discount rate results in an increase in fair value of $1,323 (December 31, 2017 – ($1,385) and $1,424, respectively).

For those investments valued using appraised values, an increase of 5% in the appraised land value per square foot would result in an increase in fair value of $478, and a decrease of 5% in the appraised land value per square foot would result in a decrease in fair value of $478 (December 31, 2017 – $491 and ($491), respectively).

Investments held for sale – Tricon Lifestyle Communities

The Company's investment in Tricon Lifestyle Communities is held through a wholly-owned subsidiary, Tricon Manufactured Housing Communities ULC, which carries the investment at fair value. The fair value of the Company's investment is estimated based on the Company's proportionate share of the net assets of the TLC limited partnership. The fair value of the net assets is based on a sum-of-the-parts approach, where assets and liabilities are measured at fair value individually.

Since all variables impacting fair value of the investment property, such as rental growth, expense inflation and the impact of future capital expenditures, generally do not change significantly in the first twelve months after acquisition, investments are recorded at cost for the first twelve months after acquisition. As a result, these properties are recorded at their purchase price plus the cost of capital expenditures. Key variables are monitored on a quarterly basis to determine if there may be a material change in fair value.

The Company fair values the TLC properties using a discounted cash flow methodology. The fair value is determined based on rental income from the current leases and assumptions about rental income from future leases, such as increases in rental rates and occupancy, less future cash outflows in respect of such leases and capital expenditures. Other factors included in the future cash flow estimate are the terminal value of the underlying property based on reliable estimates of the terminal year net operating income ("NOI"), supported by the terms of existing leases and assumptions of future leases, and market capitalization rates of comparable precedent transactions within each market.

The Company also takes into account the carried interest payable to the third-party operating partner of the underlying limited partnership in determining the fair value of its investment. The carried interest amounts are based on waterfall distribution calculations specified in the limited partnership agreement and may result in the payment of a performance fee to the third-party operating partner once limited partners receive their capital and preferred return. The fair value of external debt is based on a discounted cash flow model at a market rate that the limited partnership would have obtained for similar financing. Deferred income taxes are based on the enacted tax rates for future years. Working capital of the limited partnership approximates fair value.

During the quarter, TLC launched an official marketing process to exit the investment and, accordingly, the Company's investment in TLC has been presented as an investment held for sale. TLC properties are available for immediate sale, and management has committed to a plan to sell the group of assets and was actively seeking a buyer for the assets.

Subsequent to quarter-end, the Company entered into an agreement to dispose of its entire portfolio of 14 manufactured housing communities to an institutional investor. Completion of the sale is expected in the third quarter of 2018, subject to customary closing conditions including lender consents.

Continuity of investments

The following presents the changes in Level 3 instruments for the three months ended March 31, 2018 and for the year ended December 31, 2017:

THP

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Opening balance	$ 306,637	$ 301,787
Advances made to investments	1,449	21,496
Distributions received from investments	(1,698)	(34,855)
Investment income	2,885	18,209
Ending balance	**$ 309,273**	**$ 306,637**
Unrealized fair value gain included in net income on investments still held	2,885	18,209

TAH

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Opening balance	$ 884,115	$ 479,938
Advances made to investments	46,500	354,110
Distributions received from investments	(4,300)	(63,000)
Investment income	86,442	113,067
Ending balance	**$ 1,012,757**	**$ 884,115**
Unrealized fair value gain included in net income on investments still held	86,442	113,067

TLR

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Opening balance	$ 89,225	$ 62,410
Advances made to investments	517	14,424
Investment income	1,017	12,391
Ending balance	**$ 90,759**	**$ 89,225**
Unrealized fair value gain included in net income on investments still held	1,017	12,391

TLC (held for sale)

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Opening balance	$ 62,074	$ 52,591
Advances made to investments	304	2,102
Investment income	1,568	7,381
Ending balance	**$ 63,946**	**$ 62,074**
Unrealized fair value gain included in net income on investments still held	1,568	7,381

Financial liabilities valuation methodologies

Derivative financial instruments relate to the conversion and redemption features of the convertible debentures and are valued using model calibration, as discussed in Note 7. Inputs to the valuation model are determined from observable market data wherever possible, including prices available from exchanges and consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources.

Quantitative information about fair value measurements (Level 2) using significant observable inputs other than quoted prices included in Level 1 is as follows:

	March 31, 2018		December 31, 2017	
	2020 convertible debentures	2022 convertible debentures	2020 convertible debentures	2022 convertible debentures
Risk-free rate[1]	2.17%	2.71%	2.09%	2.23%
Stock price[2]	C$ 9.85	C$ 9.85	C$ 11.55	C$ 11.55
Implied volatility[3]	20.79%	21.39%	25.01%	24.73%
Dividend yield[4]	2.84%	2.84%	2.30%	2.30%

(1) Risk-free rates were from the Canadian and U.S. dollar swap curves matching the terms to maturity of the debentures.
(2) Closing price of the stock as of the valuation date.
(3) Implied volatility was computed from the trading volatility of the Company's stock over a comparable term to maturity.
(4) Dividend yields were from the forecast dividend yields matching the terms to maturity of the debentures.

Cash, amounts receivable, amounts payable and accrued liabilities (including interest payable), dividends payable, and revolving term credit facility are measured at cost, since their carrying values are a reasonable approximation of fair value due to their short-term nature.

5. DEBT

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Revolving term credit facility	$ 227,050	$ 161,500
Convertible debentures	213,990	214,147
Mortgage	7,698	7,957
Total debt	**$ 448,738**	**$ 383,604**

As at March 31, 2018, the outstanding balance of the revolving term credit facility was $227,050 (December 31, 2017 – $161,500). During the three months ended March 31, 2018, the Company paid interest on total debt in the amount of $8,966 (2017 – $3,209).

Revolving term credit facility

The Company has access to a $365,000 revolving term credit facility (the "Facility"). The Facility includes a syndicate of lenders comprised of Canadian and U.S. banks. The Facility has a maturity date of June 30, 2020. The Company has provided a general security agreement creating a first priority security interest on the assets of the Company.

During the three months ended March 31, 2018, the minimum balance drawn on the Facility was $161,500, and the maximum amount drawn was $227,050.

Advances under the Facility are available by way of Prime, USBR and LIBOR loans as well as Banker's Acceptances. The applicable margin on advances is determined in reference to the senior funded debt-to-EBITDA ratio and is added to the applicable loan reference rate as follows: Prime and USBR loans range from 2.25% to 3.00% above the respective reference rate, and LIBOR loans and Banker's Acceptances range from 3.25% to 4.00% above the respective reference rate. Standby fees ranging from 81.25 basis points to 1.00% of the unutilized portion of the total commitment are payable, with reference to the funded debt-to-EBITDA ratio, on a quarterly basis. Total interest expense incurred under the Facility for the three months ended March 31, 2018 amounted to $2,822 (2017 – $1,470), which includes standby charges of $321 (2017 – $238). The weighted average interest rate during the three months ended March 31, 2018 was 4.98%.

The Facility agreement requires the Company to maintain the following covenants: (i) a senior funded debt-to-EBITDA ratio of 4.25:1 for each fiscal quarter prior to June 30, 2018; 3.75:1 for each fiscal quarter ending between July 1, 2018 and June 30, 2019; and 3.25:1 for each fiscal quarter ending thereafter; (ii) a minimum interest coverage ratio of 1.25:1 for each fiscal quarter ending prior to December 31, 2018; 1.40:1 for each fiscal quarter ending between January 1, 2019 and December 31, 2019; and 1.50:1 for each fiscal quarter ending thereafter; and (iii) a consolidated total funded debt-to-capital not to exceed 55%. The Company was in compliance with each of the covenants of the Facility.

Convertible debentures

As of March 31, 2018, the Company had two issuances of convertible debentures: the 2020 convertible debentures and the 2022 convertible debentures. The host liability components of the convertible debentures recognized on the consolidated balance sheets was calculated as follows:

(in thousands of U.S. dollars)	2020 convertible debentures	2022 convertible debentures	Total
March 31, 2018			
Principal amount outstanding[1]	$ 66,463	$ 172,500	$ 238,963
Less: Transaction costs (net of amortization)	(1,162)	(6,532)	(7,694)
Liability component on initial recognition	65,301	165,968	231,269
Debentures discount (net of amortization)	(5,462)	(11,817)	(17,279)
Convertible debentures	**$ 59,839**	**$ 154,151**	**$ 213,990**

(in thousands of U.S. dollars)	2020 convertible debentures	2022 convertible debentures	Total
December 31, 2017			
Principal amount outstanding[1]	$ 68,306	$ 172,500	$ 240,806
Less: Transaction costs (net of amortization)	(1,304)	(6,901)	(8,205)
Liability component on initial recognition	67,002	165,599	232,601
Debentures discount (net of amortization)	(6,051)	(12,403)	(18,454)
Convertible debentures	**$ 60,951**	**$ 153,196**	**$ 214,147**

(1) 2020 convertible debentures principal amount outstanding of C$85,693 (2017 – C$85,693) was translated to U.S. dollars at the period-end exchange rate.

The above carrying values were recognized at amortized cost after discounting the future interest and principal payments using the effective interest rates. The fair value of the host liability component of the 2020 convertible debentures is $72,745 (C$93,797) as of March 31, 2018 and $68,362 (C$85,764) as of December 31, 2017. The fair value of the host liability component of the 2022 convertible debentures is $170,061 as of March 31, 2018 and $169,310 as of December 31, 2017. The difference between the amortized cost and implied fair value is a result of the difference between the effective interest rate and the market interest rate for debt with similar terms.

Mortgage

The Company obtained a mortgage loan to purchase a commercial condominium, which will serve as the Company's new head office in Toronto. The mortgage carries a fixed interest rate of 4.38% compounded semi-annually and matures on November 22, 2024. Total interest expense incurred on the mortgage for the three months ended March 31, 2018 was $84 (2017 – nil). As at March 31, 2018, the outstanding principal amount was $7,698 (C$9,925). The Company was in compliance with the covenant and other undertakings outlined in the mortgage agreement.

The coupon/stated interest rates and effective interest rates are as follows:

(in thousands of U.S. dollars)	Coupon/stated interest rates	Effective interest rates	Maturity dates	Debt balance March 31, 2018	Debt balance December 31, 2017
Fixed rate					
2020 convertible debentures	5.60%	6.46%	2020	$ 59,839	$ 60,951
2022 convertible debentures	5.75%	6.85%	2022	154,151	153,196
Mortgage	4.38%	4.43%	2024	7,698	7,957
Total fixed-rate debt	**5.66%**	**6.66%**		**$ 221,688**	**$ 222,104**
Variable rate					
Revolving term credit facility	LIBOR+3.25%	4.98%	2020	227,050	161,500
Total debt				**$ 448,738**	**$ 383,604**

The scheduled principal repayments and debt maturities are as follows:

(in thousands of U.S. dollars)	Revolving term credit facility	Convertible debentures	Mortgage	Total
2018	$ –	$ –	$ 132	$ 132
2019	–	–	185	185
2020	227,050	66,463	192	293,705
2021	–	–	201	201
2022	–	172,500	209	172,709
2023 and thereafter	–	–	6,779	6,779
	227,050	238,963	7,698	473,711
Transaction costs (net of amortization)				(7,694)
Debentures discount (net of amortization)				(17,279)
Total debt				**$ 448,738**

6. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

Amounts payable and accrued liabilities consist of trade payables and accrued liabilities, AIP liability, income taxes payable and interest payable, as follows:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Trade payables and accrued liabilities	$ 2,373	$ 6,187
AIP liability (Note 14)	2,817	420
Income taxes payable	3	256
Interest payable	1,239	4,410
Total amounts payable and accrued liabilities	**$ 6,432**	**$ 11,273**

7. DERIVATIVE FINANCIAL INSTRUMENTS

The conversion and redemption features of the convertible debentures are combined pursuant to IAS 39, Financial Instruments: Recognition and Measurement, and are measured at fair value at each reporting period using model calibration.

The conversion and redemption components were valued using a binomial pricing model and then the valued amount was calibrated to the traded price of the underlying debentures. The valuation model uses market-based inputs, including the spot price of the underlying equity, implied volatility of the equity, risk-free rates from the Canadian dollar swap curves and dividend yields related to the equity.

The valuation of the conversion and redemption components assumes that the debentures are held to maturity.

As at March 31, 2018, the fair value of the embedded derivative payable on the 2020 convertible debentures decreased by $12,978 (C$16,259) (2017 – increase of $4,167). The fair value of the embedded derivative payable on the 2022 convertible debentures was $7,614, representing a decrease of $16,275. The significant change in value of the conversion feature, which is reflected as income (2017 – expense) of the Company, was mainly because of the decrease in the Company's share price on the TSX.

The assumed conversion of both the 2020 and 2022 debentures was dilutive mainly due to the fair value gain recognized on the derivative financial instruments in the three months ended March 31, 2018; as a result, the shares issuable on conversion were included in the weighted average diluted shares outstanding for the three months ended March 31, 2018. The comparative period in 2017 excluded the impact of the assumed conversion of the 2020 convertible debentures because the fair value impact of the embedded derivative of the 2020 debentures was anti-dilutive.

The value attributed to the derivative financial instruments is shown below:

(in thousands of U.S. dollars)	2020 convertible debentures[1]	2022 convertible debentures	Total
March 31, 2018			
Derivative financial instruments – beginning of period	$ 13,605	$ 23,889	$ 37,494
Fair value changes (based on market price)	(12,978)	(16,275)	(29,253)
Derivative financial instruments – end of period	**$ 627**	**$ 7,614**	**$ 8,241**

(in thousands of U.S. dollars)	2020 convertible debentures[1]	2022 convertible debentures	Total
December 31, 2017			
Derivative financial instruments – beginning of year	$ 28	$ –	$ 28
Derivative instrument value of debentures issued	–	14,188	14,188
Fair value changes (based on market price)[2]	13,577	9,701	23,278
Derivative financial instruments – end of year	**$ 13,605**	**$ 23,889**	**$ 37,494**

(1) Derivative financial instruments ending balance of C$808 (2017 – C$17,067) was translated to U.S. dollars at the period-end exchange rate.

(2) Comparative periods have been reclassified to conform with the current period presentation.

8. INCOME TAXES

(in thousands of U.S. dollars)

For the three months ended March 31	2018	2017
Income tax expense – current	$ 981	$ 1,118
Income tax expense – deferred	8,585	1,144
Income tax expense from continuing operations	**$ 9,566**	**$ 2,262**
Income tax expense (recovery) from discontinued operations	**(1,957)**	**318**
Income tax expense	**$ 7,609**	**$ 2,580**

The tax on the Company's income before income taxes differs from the theoretical amount that would arise using the weighted average tax rate applicable to income of the consolidated entities as follows:

(in thousands of U.S. dollars)

For the three months ended March 31	2018	2017
Income before income taxes from continuing operations	$ 105,510	$ 8,016
Combined statutory federal and provincial income tax rate	26.50%	26.50%
Expected income tax expense	27,960	2,124
Non-taxable gains on investments	(11,166)	(1,661)
Non-taxable (gains) losses on derivative financial instruments	(7,752)	1,104
Foreign tax rate differential	(80)	224
Other, including permanent differences	604	471
Income tax expense from continuing operations	**$ 9,566**	**$ 2,262**

The expected realization of deferred income tax assets and deferred income tax liabilities is as follows:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Deferred income tax assets		
Deferred income tax assets to be recovered after more than 12 months	$ 26,494	$ 23,247
Deferred income tax assets to be recovered within 12 months	293	690
Total deferred income tax assets	**$ 26,787**	**$ 23,937**
Deferred income tax liabilities		
Deferred income tax liabilities reversing after more than 12 months	$ 57,448	$ 47,728
Deferred income tax liabilities reversing within 12 months	199	199
Total deferred income tax liabilities	**$ 57,647**	**$ 47,927**

The movement of the deferred income tax accounts was as follows:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Change in net deferred income tax liabilities		
Net deferred income tax liabilities – beginning of period	$ 23,990	$ 18,084
Charge to the statement of comprehensive income	6,628	8,416
Credit directly to equity	–	(2,054)
Other	242	(456)
Net deferred income tax liabilities – end of period	**$ 30,860**	**$ 23,990**

The tax effects of the significant components of temporary differences giving rise to the Company's deferred income tax assets and liabilities were as follows:

(in thousands of U.S. dollars)	Long-term incentive plan accrual	Issuance costs	Net operating losses	Other	Total
Deferred income tax assets					
At December 31, 2017	$ 4,201	$ 2,825	$ 15,917	$ 994	$ 23,937
Addition/(reversal)	156	(196)	2,888	2	2,850
At March 31, 2018	**$ 4,357**	**$ 2,629**	**$ 18,805**	**$ 996**	**$ 26,787**

(in thousands of U.S. dollars)	Investments	Convertible debentures	Deferred placement fees	Other	Total
Deferred income tax liabilities					
At December 31, 2017	$ 47,097	$ 490	$ 340	$ –	$ 47,927
Addition/(reversal)	9,775	(30)	(25)	–	9,720
At March 31, 2018	**$ 56,872**	**$ 460**	**$ 315**	**$ –**	**$ 57,647**

The Company believes it will have sufficient future income to realize the deferred income tax assets.

9. INTANGIBLE ASSETS

The intangible assets are as follows:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Placement fees	$ 1,323	$ 1,415
Rights to performance fees	111	127
Customer relationship intangible	4,630	4,759
Contractual development fees	12,829	13,715
Total intangible assets	**$ 18,893**	**$ 20,016**

Intangible assets represent future management fees, development fees and commissions that Tricon expects to receive over the life of the projects that the Company manages. They are amortized by project over the estimated periods that the projects expect to collect these fees, which range from 2 to 13 years.

The customer relationship intangible from Johnson represents the management fees, development fees and commissions that Tricon expects to receive from future projects. These are based on future projects which are a result of Johnson's existing customer relationships, and as such are considered to be definite-life intangibles.

There were no impairments to placement fees and rights to performance fees for the three months ended March 31, 2018 and March 31, 2017.

10. OTHER ASSETS

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Building	$ 13,950	$ 13,295
Furniture, computer and office equipment	2,361	2,051
Leasehold improvements	503	213
Goodwill	219	219
Total other assets	**$ 17,033**	**$ 15,778**

On November 22, 2017, the Company acquired a commercial condominium at 7 St. Thomas Street, Toronto for its own use. The costs of the building include the purchase price of $10,327 (C$13,316) along with development costs of $3,623 (C$4,671). For the three months ended March 31, 2018, no depreciation was taken on the building as it was not available for use. The building will be ready for use in the second quarter of 2018.

11. DIVIDENDS

(in thousands of dollars, except per share amounts)				Dividend amount per share		Total dividend amount		Dividend reinvestment plan ("DRIP")	
Date of declaration	Record date	Payment date	Common shares outstanding	CAD	USD[1]	CAD	USD[1]	CAD	USD[2]
February 27, 2018	March 31, 2018	April 16, 2018	133,556,334	$ 0.070	$ 0.054	$ 9,349	$ 7,246	$ 2,597	$ 2,061
						$ 9,349	**$ 7,246**	**$ 2,597**	**$ 2,061**
February 22, 2017	March 31, 2017	April 17, 2017	113,030,589	$ 0.065	$ 0.049	$ 7,347	$ 5,515	$ 1,246	$ 938
May 9, 2017	June 30, 2017	July 14, 2017	133,806,806	0.065	0.050	8,697	6,682	2,764	2,169
August 8, 2017	September 30, 2017	October 16, 2017	134,165,809	0.065	0.050	8,721	6,988	2,672	2,139
November 7, 2017	December 31, 2017	January 15, 2018	133,472,861	0.065	0.052	8,676	6,915	3,034	2,426
						$ 33,441	**$ 26,100**	**$ 9,716**	**$ 7,672**

(1) Dividends are issued and paid in Canadian dollars. For reporting purposes, amounts recorded in equity are translated to U.S. dollars using the daily exchange rate on the date of record. Dividends payable of $7,251 recorded on the Company's balance sheet are translated to U.S. dollars using the period-end exchange rate.

(2) Dividends reinvested are translated to U.S. dollars using the daily exchange rate on the date common shares are issued.

The Company has a Dividend Reinvestment Plan ("DRIP") under which eligible shareholders may elect to have their cash dividends automatically reinvested into additional common shares. These additional shares are issued from treasury (or purchased in the open market) at a discount, in the case of treasury issuances, of up to 5% of the Average Market Price, as defined under the DRIP, of the common shares as of the dividend payment date. If common shares are purchased in the open market, they are priced at the average weighted cost to the Company of the shares purchased.

Brokerage, commissions and service fees are not charged to shareholders for purchases or withdrawals of the Company's shares under the DRIP, and all DRIP administrative costs are assumed by the Company.

For the three months ended March 31, 2018, 290,585 common shares were issued under the DRIP (2017 – 827,617) for a total amount of $2,426 (2017 – $6,608).

12. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The common shares of the Company do not have par value.

As of March 31, 2018, the Company had 133,556,334 common shares outstanding (December 31, 2017 – 133,472,861).

	March 31, 2018			December 31, 2017		
	Number of shares issued	Share capital		Number of shares issued	Share capital	
(in thousands of dollars)	(repurchased)	USD	CAD	(repurchased)	USD	CAD
Beginning balance	133,472,861	$ 713,553	$ 885,310	112,754,769	$ 567,677	$ 685,589
Shares issued under DRIP[1]	290,585	2,426	3,034	827,617	6,608	8,471
Stock options exercised[2]	60,000	441	556	146,734	722	949
Shares issued for phantom units released from escrow	–	–	–	–	–	–
Normal course issuer bid (NCIB)[3]	(431,931)	(2,310)	(2,865)	(982,900)	(5,249)	(6,512)
Deferred share units exercised[4]	164,819	1,178	1,495	396,514	2,627	3,464
Debentures conversion	–	–	–	3,877	28	38
Bought deal offering	–	–	–	20,326,250	141,140	193,311
Ending balance	**133,556,334**	**$ 715,288**	**$ 887,530**	**133,472,861**	**$ 713,553**	**$ 885,310**

(1) In 2018, 290,585 common shares were issued under the DRIP at an average price of $8.35 (C$10.44) per share.

(2) In 2018, 60,000 vested stock options were exercised and settled by issuing 60,000 common shares.

(3) On October 4, 2017, the Company announced that the Toronto Stock Exchange approved its notice of intention to make a normal course issuer bid (NCIB) to repurchase up to 2,700,000 of its common shares during the twelve-month period ending October 5, 2018. In the first quarter of 2018, the Company repurchased 431,931 of its common shares for $3,733 (C$4,621), which reduced share capital and retained earnings by $2,310 and $1,423, respectively. Common shares that were purchased under the NCIB were cancelled by the Company.

(4) In 2018, 164,819 common shares were issued for deferred share units (DSUs) exercised at an average price of $7.15 (C$9.07) per share.

13. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing net income attributable to shareholders of Tricon by the sum of the weighted average number of shares outstanding and vested deferred share units during the period.

(in thousands of U.S. dollars, except per share amounts which are in U.S. dollars)

For the three months ended March 31	2018	2017
Net income attributable to the shareholders of Tricon from continuing operations	$ 96,202	$ 5,870
Net income attributable to the shareholders of Tricon from discontinued operations	3,525	2,001
Net income attributable to the shareholders of Tricon	$ 99,727	$ 7,871
Weighted average number of common shares outstanding	133,513,904	112,949,552
Adjustments for vested units	731,979	585,975
Weighted average number of common shares outstanding for basic earnings per share	134,245,883	113,535,527
Basic earnings per share:		
Continuing operations	$ 0.72	$ 0.05
Discontinued operations	0.02	0.02
Basic earnings per share	**$ 0.74**	**$ 0.07**

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. The Company has three categories of potentially dilutive shares: stock options, performance/deferred share units (Note 14) and the convertible debentures (Note 7). For the stock options and performance/deferred share units, the number of dilutive shares is based on the number of shares that could have been acquired at fair value (determined using the market price of the Company's shares as of March 31, 2018) based on the monetary value awarded under the AIP and LTIP. For the convertible debentures, the number of dilutive shares is based on the number of common shares into which the elected amount would then be convertible. The number of shares calculated as described above is comparable to the number of shares that would have been issued assuming the vesting of the stock compensation arrangement and conversion of debentures.

Stock options and performance/deferred share units

For the three months ended March 31, 2018, the Company's stock compensation plans resulted in 2,531,917 dilutive share units (2017 – 2,379,040) as the exercise price of the potential share units is below the average market share price of $8.24 (C$10.42) for the quarter.

Convertible debentures

For the three months ended March 31, 2018, both of the Company's convertible debentures are dilutive, as debentures interest expense, net of tax, and the net change in fair value of derivative financial instruments would result in decreased earnings per share upon conversion. Therefore, in computing the diluted weighted average shares outstanding and the associated earnings per share amount for the three months ended March 31, 2018, the impact of the 2020 and 2022 convertible debentures was included.

(in thousands of U.S. dollars, except per share amounts which are in U.S. dollars)

For the three months ended March 31	2018	2017
Net income attributable to the shareholders of Tricon from continuing operations	$ 96,202	$ 5,870
Adjustment for convertible debentures interest expense – net of tax	3,718	–
Net change in fair value of financial instruments through profit or loss	(29,253)	–
Adjusted net income attributable to the shareholders of Tricon from continuing operations	70,667	5,870
Net income attributable to the shareholders of Tricon from discontinued operations	3,525	2,001
Adjusted net income attributable to the shareholders of Tricon	$ 74,192	$ 7,871
Weighted average number of common shares outstanding	134,245,883	113,535,527
Adjustments for stock compensation	2,531,917	2,379,040
Adjustments for convertible debentures	25,235,581	–
Weighted average number of common shares outstanding for diluted earnings per share	162,013,381	115,914,567
Diluted earnings per share:		
Continuing operations	$ 0.44	$ 0.05
Discontinued operations	0.02	0.02
Diluted earnings per share	**$ 0.46**	**$ 0.07**

14. COMPENSATION EXPENSE

The breakdown of compensation expense, including the annual incentive plan ("AIP") and long-term incentive plan ("LTIP") related to various compensation arrangements, is as follows:

(in thousands of U.S. dollars) For the three months ended March 31	2018	2017
Salaries and benefits	$ 3,608	$ 3,381
Annual incentive plan ("AIP")	4,049	2,438
Long-term incentive plan ("LTIP")	2,066	(607)
Total compensation expense	**$ 9,723**	**$ 5,212**

For the three months ended March 31	2018		2017	
(in thousands of U.S. dollars)	AIP	LTIP	AIP	LTIP
Cash component	$ 2,394	$ 1,332	$ 1,509	$ (971)
Share units	1,596	335	938	536
Stock options	–	316	–	400
DRIP and revaluation loss (gain)	59	83	(9)	(572)
Total AIP and LTIP expenses	**$ 4,049**	**$ 2,066**	**$ 2,438**	**$ (607)**

The changes to transactions of the various cash-settled and equity-settled arrangements during the period are detailed in the sections below.

Cash component

AIP – For the three months ended March 31, 2018, the Company recognized $3,990 (2017 – $2,447) in relation to the AIP, of which approximately 60%, being $2,394, will be settled in cash in December 2018. The Company's AIP has been amended beginning in 2018 and provides for an aggregate bonus pool based on the sum of all employees' individual AIP targets, which are market-benchmarked. This pool is then subject to an adjustment factor, subject to the Board's discretion, of between 50% and 150%, based on achievement of Company performance objectives determined by the Board at the beginning of each year. The final pool is then allocated among employees based on individual and collective performance. AIP awards will be made in cash and equity-based grants, with the proportion of equity-based awards being correlated to the seniority of an individual's role within the Company. The AIP expense for the three months ended March 31, 2018 has increased compared to the same period in the prior year as a result of accrued expense estimated in accordance with the AIP framework described above.

LTIP – A liability for cash-component LTIP awards is accrued based on expected performance fees that would be generated from the fair value of the assets within each fund or separate account but disbursed only when such performance fees are earned and recognized as revenue. Changes in LTIP are primarily caused by changes to fair values of fund assets, which result from timing and cash flow changes at the project level of each fund, and changing business conditions.

For the three months ended March 31, 2018, the Company increased its accrual related to cash-component LTIP by $1,332 (2017 – $971 accrual decrease) as a result of an increase in expected future performance fees from commingled funds (excluding THP1 US) and separate accounts/side-car investments that will be paid over pre-established vesting periods specific to each commingled fund or separate account/side-car commencing on the anniversary date of the award.

Share units

AIP – For the three months ended March 31, 2018, the Company accrued $1,596 in AIP expense (2017 – $938), representing approximately 40% of the 2018 AIP entitlement, which will be granted in performance share units (PSUs), deferred share units (DSUs) or other share units in December 2018 and will vest within three years from the grant date.

LTIP – For the three months ended March 31, 2018, the Company accrued $335 in LTIP expense (2017 – $536) relating to investment income from THP1 US that is paid in DSUs vesting equally over a five-year period commencing on the anniversary date of each grant. Compensation expense related to the grants is recognized on a graded vesting basis and for the three months ended March 31, 2018 is comprised of $7 relating to the current-year entitlement and $328 relating to the prior-year entitlements.

Stock option plan

During the three months ended March 31, 2018, no stock options were granted (2017 – nil), and 60,000 stock options were exercised (2017 – 22,334). For the three months ended March 31, 2018, the Company recorded $316 (2017 – $400) in relation to previously granted stock options.

The following table summarizes the movement in the stock option plan during the specified periods:

	For the three months ended March 31, 2018		For the year ended December 31, 2017	
	Number of options	Weighted average exercise price (CAD)	Number of options	Weighted average exercise price (CAD)
Opening balance – outstanding	4,491,001	$ 9.08	4,346,835	$ 8.53
Granted	–	–	990,000	11.35
Exercised	(60,000)	7.83	(804,000)	8.89
Forfeited	–	–	(41,834)	9.41
Ending balance – outstanding	**4,431,001**	**$ 9.10**	**4,491,001**	**$ 9.08**

		March 31, 2018		
Grant date	Expiration date	Options outstanding	Options exercisable	Exercise price on outstanding options (CAD)
May 19, 2010	May 19, 2020	521,000	521,000	$ 6.00
August 3, 2010	August 3, 2020	49,000	49,000	5.26
November 22, 2011	November 22, 2020	20,000	20,000	4.16
May 17, 2013	May 17, 2020	620,334	620,334	6.81
November 25, 2013	November 25, 2020	150,833	150,833	7.74
March 16, 2015	March 16, 2020	533,166	533,166	10.57
November 17, 2015	November 17, 2020	756,668	488,330	10.03
November 14, 2016	November 14, 2023	790,000	236,666	8.85
December 15, 2017	December 15, 2024	990,000	–	11.35
Total		**4,431,001**	**2,619,329**	**$ 9.10**

AIP payable is recorded within amounts payable and accrued liabilities, and the equity component is included in the contributed surplus. The breakdown is presented below.

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Amounts payable and accrued liabilities (Note 6)	$ 2,817	$ 420
Equity – contributed surplus	5,545	5,535
Total AIP	**$ 8,362**	**$ 5,955**

LTIP's liability and equity components are presented on the balance sheet as follows:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
LTIP – liability	$ 16,145	$ 15,224
Equity – contributed surplus	9,582	9,877
Total LTIP	**$ 25,727**	**$ 25,101**

15. SEGMENTED INFORMATION

In accordance with IFRS 8, Operating Segments, the Company discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. The Company evaluates segment performance based on the revenue and investment income of each investment vertical.

The corporate headquarters provides support functions in the areas of accounting, treasury, information technology, legal, and human resources, and therefore, it does not represent an operating segment. Such corporate expenses have been included below to provide a reconciliation to the overall results in accordance with IFRS 8.

The Company does not report balance sheet information by segment because that information is not used to evaluate performance or allocate resources between segments.

The Company has five reportable segments, including investments held for sale, as follows: Private Funds and Advisory ("PF&A"); and principal investing in Tricon Housing Partners ("THP"), Tricon American Homes ("TAH"), Tricon Lifestyle Rentals ("TLR") and Tricon Lifestyle Communities ("TLC"). The reportable segments are business units offering different products and services, and are managed separately due to their distinct investment natures. These five reportable segments have been determined by the Company's chief operating decision makers.

(in thousands of U.S. dollars)

For the three months ended March 31, 2018	PF&A	THP	TAH	TLR	TLC	Corporate	Total
Revenue	$ 5,567	$ –	$ –	$ –	$ –	$ –	$ 5,567
Investment income	–	2,885	86,442	1,017	–	–	90,344
	5,567	2,885	86,442	1,017	–	–	95,911
Other income	–	–	–	–	–	18,796	18,796
Interest expense	–	–	–	–	–	(7,964)	(7,964)
Amortization and depreciation expense	–	–	–	–	–	(1,233)	(1,233)
Income tax expense	–	–	–	–	–	(9,566)	(9,566)
Net income from continuing operations	5,567	2,885	86,442	1,017	–	33	95,944
Net income from discontinued operations	–	–	–	–	3,525	–	3,525
Net income	**$ 5,567**	**$ 2,885**	**$ 86,442**	**$ 1,017**	**$ 3,525**	**$ 33**	**$ 99,469**

(in thousands of U.S. dollars)

For the three months ended March 31, 2017	PF&A	THP	TAH	TLR	TLC	Corporate	Total
Revenue	$ 5,744	$ –	$ –	$ –	$ –	$ –	$ 5,744
Investment income	–	5,668	12,269	1,931	–	–	19,868
	5,744	5,668	12,269	1,931	–	–	25,612
Expenses	–	–	–	–	–	(12,879)	(12,879)
Interest expense	–	–	–	–	–	(3,316)	(3,316)
Amortization and depreciation expense	–	–	–	–	–	(1,401)	(1,401)
Income tax expense	–	–	–	–	–	(2,262)	(2,262)
Net income from continuing operations	5,744	5,668	12,269	1,931	–	(19,858)	5,754
Net income from discontinued operations	–	–	–	–	2,001	–	2,001
Net income	**$ 5,744**	**$ 5,668**	**$ 12,269**	**$ 1,931**	**$ 2,001**	**$ (19,858)**	**$ 7,755**

16. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has a ten-year sub-lease commitment on the head office premises with Mandukwe Inc., a company owned and controlled by a current director and shareholder of Tricon. For the three months ended March 31, 2018, the Company paid $41 in rental payments to Mandukwe Inc., including realty taxes, maintenance, insurance, and utility costs (2017 – $46).

Transactions with related parties

The following table summarizes revenue earned from related parties, including consolidated subsidiaries. These are contractual arrangements with investment funds managed by the Company, of which the Company is the general partner of the investment. In addition, the table includes investment income from related entities fair valued by the Company.

(in thousands of U.S. dollars)

For the three months ended March 31	2018	2017
Contractual fees	$ 5,203	$ 5,408
General partner distributions	356	333
Performance fees	8	3
Total revenue	**$ 5,567**	**$ 5,744**
Investment income – Tricon Housing Partners	$ 2,885	$ 5,668
Investment income – Tricon American Homes	86,442	12,269
Investment income – Tricon Lifestyle Rentals	1,017	1,931
Total investment income from continuing operations	**$ 90,344**	**$ 19,868**
Investment income from discontinued operations – Tricon Lifestyle Communities	**$ 1,568**	**$ 2,319**

Balances arising from transactions with related parties

The items set out below are included on various line items comprising the Company's consolidated financial statements.

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Receivables from related parties included in amounts receivable		
Contractual fees receivable from investments managed	$ 686	$ 1,609
Other receivables	5,507	5,381
Employee relocation housing loans[1]	2,724	670
Loan receivables from investment in associates and joint ventures	21,548	21,903
Annual incentive plan	8,362	5,955
Long-term incentive plan	25,727	25,101
Dividends payable	345	320
Other payables to related parties included in amounts payable and accrued liabilities	39	2,261

(1) The employee relocation housing loans are non-interest bearing for a term of five to ten years, maturing between 2018 and 2028.

Revenues and receivables from related parties relate to general partnership distributions and contractual and performance fees for services provided by the Company. The receivables are unsecured and non-interest bearing. There are no provisions recorded against receivables from related parties at March 31, 2018 (December 31, 2017 – nil).

17. FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that an entity will have difficulty in meeting obligations associated with its financial liabilities as they fall due or can only do so on terms that are materially disadvantageous. Prudent liquidity risk management includes maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities. The Company uses long-term borrowings to finance its investment strategy for Tricon American Homes, Tricon Lifestyle Rentals and Tricon Lifestyle Communities. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational and financing costs. Liquidity risk from the convertible debentures is mitigated by the Company's option, under the terms of the debentures, to settle the obligation with shares.

The maturity analysis of the Company's financial liabilities is as follows:

(in thousands of U.S. dollars) As at March 31, 2018	Due on demand and within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Liabilities					
Amounts payable and accrued liabilities	$ 6,432	$ –	$ –	$ –	$ 6,432
Dividends payable	7,251	–	–	–	7,251
Revolving term credit facility	–	227,050	–	–	227,050
Debentures payable	–	66,463	172,500	–	238,963
Mortgage	132	377	410	6,779	7,698
Derivative financial instruments	–	627	7,614	–	8,241
Total	**$ 13,815**	**$ 294,517**	**$ 180,524**	**$ 6,779**	**$ 495,635**

(in thousands of U.S. dollars) As at December 31, 2017	Due on demand and within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Liabilities					
Amounts payable and accrued liabilities	$ 11,273	$ –	$ –	$ –	$ 11,273
Dividends payable	6,906	–	–	–	6,906
Revolving term credit facility	–	161,500	–	–	161,500
Debentures payable	–	68,306	172,500	–	240,806
Mortgage	181	388	421	6,967	7,957
Derivative financial instruments	–	13,605	23,889	–	37,494
Total	**$ 18,360**	**$ 243,799**	**$ 196,810**	**$ 6,967**	**$ 465,936**

During the three months ended March 31, 2018, the change in the Company's liquidity resulted in a working capital surplus of $12,133 (December 31, 2017 – surplus of $10,581). As of March 31, 2018, the outstanding credit facility was $227,050 (December 31, 2017 – $161,500) and $137,950 of the credit facility remained available to the Company. During the three months ended March 31, 2018, the Company received distributions of $5,998 (2017 – $22,741) from its investments.

The future repayments of principal and interest on fixed-rate financial liabilities is as follows:

(in thousands of U.S. dollars) As at March 31, 2018	Within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Principal					
2020 convertible debentures[1]	$ –	$ 66,463	$ –	$ –	$ 66,463
2022 convertible debentures	–	–	172,500	–	172,500
Mortgage[1]	132	377	410	6,779	7,698
Interest					
2020 convertible debentures[1]	3,722	3,722	–	–	7,444
2022 convertible debentures	9,919	19,837	9,919	–	39,675
Mortgage[1]	250	641	607	524	2,022
Total	**$ 14,023**	**$ 91,040**	**$ 183,436**	**$ 7,303**	**$ 295,802**

(1) 2020 convertible debentures and mortgage amounts were translated to U.S. dollars at the period-end exchange rate.

The details of the net current assets are shown below:

(in thousands of U.S. dollars)	March 31, 2018	December 31, 2017
Cash	$ 11,809	$ 14,813
Amounts receivable	13,465	13,506
Prepaid expenses and deposits	674	622
Current assets	25,948	28,941
Amounts payable and accrued liabilities	6,432	11,273
Dividends payable	7,251	6,906
Mortgage	132	181
Net current assets	**$ 12,133**	**$ 10,581**

18. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to safeguard its ability to meet financial obligations and growth objectives, including future investments; (ii) to provide an appropriate return to its shareholders; and (iii) to maintain an optimal capital structure that allows multiple financing options, should a financing need arise. The Company's capital consists of debt (including revolving term credit facility and convertible debentures), cash and shareholders' equity. In order to maintain or adjust the capital structure, the Company manages equity as capital and may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

As of March 31, 2018, the Company was in compliance with all financial covenants (Note 5).

19. WORKING CAPITAL CHANGES

(in thousands of U.S. dollars)

For the three months ended March 31	2018	2017
Amounts receivable	$ 41	$ (1,909)
Prepaid expenses and deposits	(52)	(1,061)
Amounts payable and accruals	(4,841)	73
	$ (4,852)	**$ (2,897)**

20. FINANCING ACTIVITIES

			Non-cash changes			
(in thousands of U.S. dollars)	As at December 31, 2017	Cash flows	Foreign exchange movement	Fair value changes	Other[1]	As at March 31, 2018
Revolving term credit facility	$ 161,500	$ 65,550	$ –	$ –	$ –	$ 227,050
2020 convertible debentures	60,951	–	(1,843)	–	731	59,839
2022 convertible debentures	153,196	–	–	–	955	154,151
Derivative financial instruments	37,494	–	–	(29,253)	–	8,241
Mortgage	7,957	(45)	(214)	–	–	7,698
Total liabilities from financing activities	**$ 421,098**	**$ 65,505**	**$ (2,057)**	**$ (29,253)**	**$ 1,686**	**$ 456,979**

(1) Includes amortization of debenture discounts and issuance costs.

21. SUBSEQUENT EVENTS

On April 9, 2018, the Company announced that TLC entered into an agreement to sell its portfolio of 14 manufactured housing communities to an institutional investor. Completion of the sale is expected in the third quarter of 2018, subject to customary closing conditions including lender consents.

On April 18, 2018, TAH completed the single-family rental securitization transaction described in Note 4.

On April 27, 2018, TLR Canada announced its participation in a partnership, which includes Tricon/TLR, Dream Unlimited Corp. and Kilmer Group on an equal ownership basis, to develop and manage a new rental apartment community in Toronto's West Don Lands.

On May 7, 2018, Tricon announced a complete redesign of its compensation plan beginning in 2018 to better align executive compensation with its current business plan and shareholders' long-term interests.

On May 8, 2018, the Board of Directors of the Company declared a dividend of seven cents per share in Canadian dollars payable on or after July 15, 2018 to shareholders of record on June 30, 2018.

TRICON

CELEBRATING **30 YEARS**

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