Rethinking Residential Real Estate

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the Three and Six Months Ended June 30, 2018

TRICON

CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited (in thousands of U.S. dollars)

	Notes	June 30, 2018	December 31, 2017
ASSETS			
Cash		$ 21,792	$ 14,813
Amounts receivable		17,657	13,506
Prepaid expenses and deposits		479	622
Investments – Tricon American Homes	3, 4	1,064,140	884,115
Investments – Tricon Housing Partners	3, 4	312,727	306,637
Investments – Tricon Lifestyle Rentals	3, 4	107,074	89,225
Investments held for sale – Tricon Lifestyle Communities	3, 4	–	62,074
Intangible assets	9	22,924	20,016
Deferred income tax assets	8	29,950	23,937
Other assets	10, 11	21,077	15,778
Total assets		**$ 1,597,820**	**$ 1,430,723**
LIABILITIES			
Amounts payable and accrued liabilities	6	$ 19,438	$ 11,273
Dividends payable	12	7,115	6,906
Long-term incentive plan	15	16,154	15,224
Debt	5, 11	417,659	383,604
Deferred income tax liabilities	8	64,386	47,927
Derivative financial instruments	7	17,768	37,494
Total liabilities		**542,520**	**502,428**
Equity			
Share capital	13	717,485	713,553
Contributed surplus		17,473	16,754
Cumulative translation adjustment		19,336	19,184
Retained earnings		291,319	167,849
Total shareholders' equity		1,045,613	917,340
Non-controlling interest		9,687	10,955
Total equity		**1,055,300**	**928,295**
Total liabilities and equity		**$ 1,597,820**	**$ 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 (LOSS)

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		For the six months ended	
	Notes	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Revenue					
Contractual fees	2, 16	$ 6,283	$ 5,673	$ 11,486	$ 11,081
General partner distributions	2, 16	353	331	709	664
Performance fees	2, 16	838	355	846	358
		7,474	6,359	13,041	12,103
Investment income					
Investment income (loss) – Tricon American Homes	16, 17	40,681	(1,954)	127,123	10,315
Investment income – Tricon Housing Partners	16, 17	3,312	6,568	6,197	12,236
Investment income – Tricon Lifestyle Rentals	16, 17	2,547	2,847	3,564	4,778
		46,540	7,461	136,884	27,329
		54,014	13,820	149,925	39,432
Expenses					
Compensation expense	15	9,955	9,773	19,678	14,985
General and administration expense		2,671	2,053	4,995	3,913
Interest expense	5	8,603	6,478	16,567	9,794
Net change in fair value of derivative financial instruments	7	9,527	19,151	(19,726)	23,318
Transaction costs		82	980	180	1,916
Amortization and depreciation expense		1,249	1,378	2,482	2,779
Realized and unrealized foreign exchange gain		(1,289)	(1,822)	(2,977)	(1,118)
		30,798	37,991	21,199	55,587
Income (loss) before income taxes		**23,216**	**(24,171)**	**128,726**	**(16,155)**
Income tax recovery (expense) – current	8	298	(1,573)	(683)	(2,691)
Income tax recovery (expense) – deferred	8	(3,353)	2,708	(11,938)	1,564
Net income (loss) from continuing operations		**$ 20,161**	**$ (23,036)**	**$ 116,105**	**$ (17,282)**
Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities	16, 17	19,602	1,613	21,170	3,932
Income tax recovery (expense) from discontinued operations – deferred	8	–	(220)	1,957	(538)
Net income from discontinued operations		**$ 19,602**	**$ 1,393**	**$ 23,127**	**$ 3,394**
Net income (loss)		**$ 39,763**	**$ (21,643)**	**$ 139,232**	**$ (13,888)**
Attributable to:					
Shareholders of Tricon		39,527	(21,663)	139,254	(13,792)
Non-controlling interest		236	20	(22)	(96)
Net income (loss)		**$ 39,763**	**$ (21,643)**	**$ 139,232**	**$ (13,888)**
Other comprehensive income (loss):					
Items that will be reclassified subsequently to net income					
Cumulative translation reserve		(1,084)	(908)	152	(303)
Comprehensive income (loss) for the period		**$ 38,679**	**$ (22,551)**	**$ 139,384**	**$ (14,191)**
Attributable to:					
Shareholders of Tricon		$ 38,443	$ (22,571)	$ 139,406	$ (14,095)
Non-controlling interest		236	20	(22)	(96)
Comprehensive income (loss) for the period		**$ 38,679**	**$ (22,551)**	**$ 139,384**	**$ (14,191)**
Basic earnings (loss) per share attributable to shareholders of Tricon					
Continuing operations	14	$ 0.15	$ (0.18)	$ 0.87	$ (0.14)
Discontinued operations	14	0.14	0.01	0.17	0.02
Basic earnings (loss) per share attributable to shareholders of Tricon	14	**$ 0.29**	**$ (0.17)**	**$ 1.04**	**$ (0.12)**
Diluted earnings (loss) per share attributable to shareholders of Tricon					
Continuing operations	14	$ 0.15	$ (0.18)	$ 0.65	$ (0.14)
Discontinued operations	14	0.14	0.01	0.14	0.03
Diluted earnings (loss) per share attributable to shareholders of Tricon	14	**$ 0.29**	**$ (0.17)**	**$ 0.79**	**$ (0.11)**
Weighted average shares outstanding – basic	14	**134,528,070**	**125,490,567**	**134,389,889**	**119,454,548**
Weighted average shares outstanding – diluted	14	**136,394,075**	**128,153,242**	**161,492,736**	**121,991,068**

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		–	–	–	139,254	139,254	(22)	139,232
Cumulative translation reserve		–	–	152	–	152	–	152
Distributions to non-controlling interest		–	–	–	–	–	(1,246)	(1,246)
Dividends/Dividend reinvestment plan	12	4,487	–	–	(14,361)	(9,874)	–	(9,874)
Repurchase of common shares	13	(2,310)	–	–	(1,423)	(3,733)	–	(3,733)
Debentures conversion	13	6	–	–	–	6	–	6
Stock options	15	470	553	–	–	1,023	–	1,023
Deferred share units	15	1,279	166	–	–	1,445	–	1,445
Balance at June 30, 2018		**$ 717,485**	**$ 17,473**	**$ 19,336**	**$ 291,319**	**$ 1,045,613**	**$ 9,687**	**$ 1,055,300**
Balance at January 1, 2017		**$ 567,677**	**$ 15,835**	**$ 18,711**	**$ 127,691**	**$ 729,914**	**$ 13,747**	**$ 743,661**
Net loss		–	–	–	(13,792)	(13,792)	(96)	(13,888)
Cumulative translation reserve		–	–	(303)	–	(303)	–	(303)
Distributions to non-controlling interest		–	–	–	–	–	(1,446)	(1,446)
Dividends/Dividend reinvestment plan	12	2,300	–	–	(12,197)	(9,897)	–	(9,897)
Debentures conversion	13	28	–	–	–	28	–	28
Bought deal offering	13	141,140	–	–	–	141,140	–	141,140
Stock options	15	386	316	–	–	702	–	702
Deferred share units	15	1,897	423	–	–	2,320	–	2,320
Balance at June 30, 2017		**$ 713,428**	**$ 16,574**	**$ 18,408**	**$ 101,702**	**$ 850,112**	**$ 12,205**	**$ 862,317**

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 six months ended	Notes	June 30, 2018	June 30, 2017
CASH PROVIDED BY (USED IN)			
Operating activities			
Net income (loss)		$ 139,232	$ (13,888)
Adjustments for non-cash items			
Amortization and depreciation expense	10, 11	2,482	2,779
Deferred income taxes	8	9,981	(1,026)
Long-term incentive plan	15	3,464	584
Annual incentive plan	15	8,969	7,233
Amortization of debenture discount and issuance costs		3,461	2,312
Accrued investment income – Tricon American Homes	4	(127,123)	(10,315)
Accrued investment income – Tricon Housing Partners	4	(6,197)	(12,236)
Accrued investment income – Tricon Lifestyle Rentals	4	(3,564)	(4,778)
Accrued investment income from discontinued operations – Tricon Lifestyle Communities	4	(21,170)	(3,932)
Net change in fair value of derivative financial instruments	7	(19,726)	23,318
Unrealized foreign exchange gain		(6,239)	(4,386)
Distributions to non-controlling interest		(1,246)	(1,446)
Advances made to investments	4	(110,905)	(348,148)
Distributions received from investments	4	43,825	72,620
		(84,756)	(291,309)
Changes in non-cash working capital items	20	4,157	7,130
Net cash (used in) provided by operating activities from continuing operations		**(80,599)**	**(284,179)**
Advances made to investments held for sale	4	(304)	(406)
Proceeds from disposal of investments held for sale	4	78,000	–
Net cash (used in) provided by operating activities from discontinued operations		**77,696**	**(406)**
Net cash (used in) provided by operating activities		**(2,903)**	**(284,585)**
Investing activities			
Purchase of building, furniture, office and computer equipment, and leasehold improvements	10	(4,461)	(137)
Placement fees	9	(5,000)	–
Net cash (used in) provided by investing activities		**(9,461)**	**(137)**
Financing activities			
Lease payments	11	(15)	–
Issuance (repurchase) of common shares – net of issuance costs	13	(3,733)	139,086
Debt financing	5	32,976	(20,750)
Issuance of convertible debentures – net of deferred financing costs	5	–	164,556
Dividends paid	12	(9,835)	(8,769)
Net cash (used in) provided by financing activities		**19,393**	**274,123**
Effect of foreign exchange rate difference on cash		**(50)**	**25**
Change in cash during the period		**6,979**	**(10,574)**
Cash – beginning of period		**14,813**	**17,780**
Cash – end of period		**$ 21,792**	**$ 7,206**
Supplementary information			
Cash paid on			
Income taxes		**$ 2,125**	**$ 3,114**
Interest		**$ 12,470**	**$ 2,042**

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 American Homes, Tricon Housing Partners and Tricon Lifestyle Rentals. In Private Funds and Advisory, the Company manages third-party capital in connection with investments made alongside institutional investors including sovereign wealth funds, pension plans, endowments, strategic partners and high-net-worth investors seeking exposure to North American residential real estate, including income-producing assets and development projects. As the general partner, sponsor and/or manager of various private investment vehicles, the Company earns contractual fee revenue, namely asset management fees, general partner distributions, development fees and performance fees.

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 August 7, 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 in accordance with IAS 34, Interim Financial Reporting. They should be read in conjunction with the annual Audited Financial Statements for the year ended December 31, 2017, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, except for (i) investments in Tricon American Homes, Tricon Housing Partners and Tricon Lifestyle Rentals, 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 18). 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 receivable 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 six months 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 on 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 had no significant operating lease arrangements. During the second quarter, the Company entered into a new lease agreement for its San Francisco office for an eight-year term. This new lease arrangement has been accounted for in accordance with IFRS 16, and is described in Note 11.

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

Revenue from contracts with customers comprises 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 Tricon American Homes, 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, 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 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.

On June 27, 2018, the Company entered into a joint venture arrangement ("TAH JV-1") with two leading institutional investors to assemble a portfolio of single-family rental homes which will be acquired and managed by TAH. Under the terms of the joint venture, Tricon and the two investors have each committed to invest approximately $250,000 for a one-third interest in TAH JV-1 and the capital is expected to be deployed over a three-year investment period, followed by a five-year holding period.

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

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

Investments held for sale – Tricon Lifestyle Communities ("TLC") were investments in U.S. manufactured housing communities that leased land to owners of prefabricated homes. Investments in TLC were classified as held for sale in early 2018 and disposed of on June 29, 2018.

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:

	June 30, 2018			December 31, 2017		
(in thousands of U.S. dollars)	Internal debt instruments	Equity	Total investment	Internal debt instruments	Equity	Total investment
Investments – TAH	$ –	$ 1,064,140	$ 1,064,140	$ –	$ 884,115	$ 884,115
Investments – THP						
U.S. commingled funds	–	118,590	118,590	–	119,714	119,714
Canadian commingled funds	–	9,325	9,325	–	9,651	9,651
Separate accounts and side-cars	21,014	163,798	184,812	21,903	155,369	177,272
	21,014	291,713	312,727	21,903	284,734	306,637
Investments – TLR	–	107,074	107,074	–	89,225	89,225
Investments held for sale – TLC	–	–	–	–	62,074	62,074
Total	**$ 21,014**	**$ 1,462,927**	**$ 1,483,941**	**$ 21,903**	**$ 1,320,148**	**$ 1,342,051**

The underlying loan instruments within the Company's THP 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 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 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[1]	Unfunded commitment	Project fees	Cash distributions	Total distributions	Investments at fair value[2]
As at June 30, 2018[3]								
THP1 US[4,5]	USD	$ 226,775	$ 269,855	$ 10,796	$ –	$ 276,336	$ 276,336	$ 90,476
THP2 US	USD	25,000	21,868	3,132	–	28	28	28,114
THP US SP1 LP	USD	6,330	5,331	999	733	1,592	2,325	5,380
THP US SP2 LP	USD	5,760	5,210	550	370	205	575	6,044
Cross Creek Ranch	USD	12,960	12,484	476	6,396	15,145	21,541	8,422
Fulshear Farms	USD	5,000	3,281	1,719	650	–	650	3,205
Grand Central Park	USD	9,785	8,526	1,259	3,871	1,598	5,469	9,289
Trilogy at Verde River	USD	12,600	10,312	2,288	3,893	1,098	4,991	8,428
Viridian	USD	25,400	26,860	1,047	3,768	5,775	9,543	28,286
Trinity Falls	USD	91,750	81,549	10,201	1,357	–	1,357	101,344
Side-cars	USD	23,613	20,878	2,735	6,309	1,155	7,464	14,414
Total USD investments		**$ 444,973**	**$ 466,154**	**$ 35,202**	**$ 27,347**	**$ 302,932**	**$ 330,279**	**$ 303,402**
THP3 Canada	CAD	20,000	12,462	7,538	–	4,692	4,692	9,325
Total CAD investments		**$ 20,000**	**$ 12,462**	**$ 7,538**	**$ –**	**$ 4,692**	**$ 4,692**	**$ 9,325**
Investments – THP								**$ 312,727**
As at December 31, 2017[3]								
THP1 US[4,5]	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) In certain cases, distributions received during the investment period can be recalled and re-advanced, leading to a higher advance amount than total commitment.
(2) Investments at fair value as of June 30, 2018 and December 31, 2017 are shown in thousands of U.S. dollars.
(3) Commitment, unfunded commitment, advances and distributions are shown in fund or separate account originating currency.
(4) $226,775 represents the Company's total fund commitment; the purchase price of the 68.4% interest was $260,500.
(5) 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:

	June 30, 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 – TAH	$ –	$ –	$ 1,064,140	$ –	$ –	$ 884,115
Investments – THP						
U.S. commingled funds	–	–	118,590	–	–	119,714
Canadian commingled funds	–	–	9,325	–	–	9,651
Separate accounts and side-cars	–	–	184,812	–	–	177,272
	–	–	312,727	–	–	306,637
Investments – TLR	–	–	107,074	–	–	89,225
Investments held for sale – TLC	–	–	–	–	–	62,074
	$ –	**$ –**	**$ 1,483,941**	**$ –**	**$ –**	**$ 1,342,051**
Financial liabilities						
Derivative financial instruments (Note 7)	$ –	$ 17,768	$ –	$ –	$ 37,494	$ –

There have been no transfers between levels for the six months ended June 30, 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 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 April 1, 2018 were valued at May 31, 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 June 30, 2018.

During the six months ended June 30, 2018, the Broker Price Opinion ("BPO") valuation methodology was used to determine the fair value of 3,193 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 June 30, 2018 is as follows:

(in thousands of U.S. dollars)	Effective interest rates	Maturity dates	Debt balance[4] June 30, 2018	Debt balance[4] December 31, 2017
Silver Bay acquisition warehouse facility[1]	LIBOR+3.26%	September 2018	$ 25,926	$ 155,828
Warehouse credit facility[2]	LIBOR+3.00%	October 2019	99,687	184,167
Securitization loan, TAH 2016-1	3.59%	November 2021	362,234	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
Securitization loan, TAH 2018-1[3]	3.86%	May 2025	313,865	–
Total debt			**$ 1,976,888**	**$ 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) TAH closed a new securitization loan on April 18, 2018. The transaction 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 $313,865 and approximately $280,000 of the proceeds was used to repay the existing TAH warehouse facilities.

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

Sensitivity

As of June 30, 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 six months ended June 30, 2018 ranged from 1.56% to 2.00%. If interest rates had been 50 basis points lower, with all other variables held constant, investment income in TAH for the six months ended June 30, 2018 would have been $1,489 (2017 – $1,782) higher. If interest rates had been 50 basis points higher, with all other variables held constant, investment income in TAH for the six months ended June 30, 2018 would have been $1,408 (2017 – $1,782) 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 June 30, 2018 would be $29,337 and ($29,337), respectively (December 31, 2017 – $26,613 and ($26,613)).

The weighted average of the quarterly HPI change was 1.7%. If the change in the quarterly HPI increased or decreased by 0.5%, the impact on investments in TAH fair value at June 30, 2018 would be $13,471 and ($13,471), respectively (December 31, 2017 – $8,206 and ($8,206)).

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

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.

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):

			June 30, 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% 4.7 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 – 3 years	14.7% 2.4 years	12.5% – 20.0% 1 – 4 years	14.7% 2.8 years	
THP2 US			12.5% – 20.0% 1 – 10 years	14.6% 1.4 years	12.5% – 20.0% 1 – 10 years	15.0% 1.3 years	
THP3 Canada			8.0% – 18.0% 1 – 8 years	10.8% 1.8 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] 12.8 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 rates 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 June 30, 2018.

Sensitivity

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

		June 30, 2018		December 31, 2017	
(in thousands of dollars)	Currency	1% increase	1% decrease	1% increase	1% decrease
U.S. commingled funds	USD	$ (771)	$ 789	$ (1,067)	$ 1,094
Canadian commingled funds	CAD	(144)	147	(165)	169
Separate accounts and side-cars	USD	(3,099)	3,105	(3,002)	3,186

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):

			June 30, 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
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% 1.2 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]	12.0% – 13.0% 1 – 2 years	12.5% 1.8 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 the 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 June 30, 2018.

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 $1,221, and a decrease of 1% in the discount rate results in an increase in fair value of $1,252 (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 $468, and a decrease of 5% in the appraised land value per square foot would result in a decrease in fair value of $468 (December 31, 2017 – $491 and ($491), respectively).

Investments held for sale – Tricon Lifestyle Communities

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

On June 29, 2018, TLC completed the previously-announced sale of its 14 manufactured housing communities to an institutional asset manager for gross proceeds of $172,500. The net proceeds to Tricon were $85,186, which included $83,548 in proceeds from the disposal and $1,638 in reimbursement of expenses. Tricon received distributions of $78,000 upon closing; the remaining proceeds of $7,186 are included in amounts receivable as at June 30, 2018.

(in thousands of U.S. dollars)	June 30, 2018
Sales proceeds from disposal of investment properties	$ 172,500
Settlement of mortgage balances	(77,621)
Transaction costs on disposal	(4,882)
Other net liabilities	(102)
Distributions to non-controlling interest	(6,347)
Proceeds from disposal of investments held for sale to Tricon	83,548
Reimbursable expenses	1,638
Total proceeds to Tricon	**$ 85,186**

At the time of sale, the carrying value of investment properties on TLC's balance sheet was $146,267, resulting in a gain from disposal of investment properties of $26,233 in the three months ended June 30, 2018. In the three and six months ended June 30, 2018, Tricon recognized investment income from discontinued operations of $19,602 and $21,170, respectively, after deducting transaction costs and proceeds to TLC's operating partner.

Investments held for sale – TLC

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Opening balance	$ 62,074	$ 52,591
Advances made to investments	304	2,102
Proceeds from disposal of investments held for sale	(83,548)	–
Investment income	21,170	7,381
Ending balance	**$ –**	**$ 62,074**

Continuity of investments

The following presents the changes in Level 3 instruments for the six months ended June 30, 2018 and for the year ended December 31, 2017:

TAH

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Opening balance	$ 884,115	$ 479,938
Advances made to investments	93,202	354,110
Distributions received from investments	(40,300)	(63,000)
Investment income	127,123	113,067
Ending balance	**$ 1,064,140**	**$ 884,115**
Unrealized fair value gain included in net income on investments still held	127,123	113,067

THP

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Opening balance	$ 306,637	$ 301,787
Advances made to investments	3,418	21,496
Distributions received from investments	(3,525)	(34,855)
Investment income	6,197	18,209
Ending balance	**$ 312,727**	**$ 306,637**
Unrealized fair value gain included in net income on investments still held	6,197	18,209

TLR

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Opening balance	$ 89,225	$ 62,410
Advances made to investments	14,285	14,424
Investment income	3,564	12,391
Ending balance	**$ 107,074**	**$ 89,225**
Unrealized fair value gain included in net income on investments still held	3,564	12,391

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:

	June 30, 2018		December 31, 2017	
	2020 convertible debentures	2022 convertible debentures	2020 convertible debentures	2022 convertible debentures
Risk-free rate[1]	2.27%	2.90%	2.09%	2.23%
Stock price[2]	C$ 11.03	C$ 11.03	C$ 11.55	C$ 11.55
Implied volatility[3]	20.53%	20.21%	25.01%	24.73%
Dividend yield[4]	2.54%	2.54%	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)	June 30, 2018	December 31, 2017
Revolving term credit facility	$ 194,550	$ 161,500
Convertible debentures	214,371	214,147
Mortgage	7,508	7,957
Lease obligation (Note 11)	1,230	–
Total debt	**$ 417,659**	**$ 383,604**

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 six months ended June 30, 2018, the minimum balance drawn on the Facility was $161,500, and the maximum amount drawn was $261,050.

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 six months ended June 30, 2018 amounted to $6,183 (2017 – $2,829), which includes standby charges of $634 (2017 – $720). The weighted average interest rate during the six months ended June 30, 2018 was 5.16%.

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 June 30, 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 were calculated as follows:

(in thousands of U.S. dollars)	2020 convertible debentures	2022 convertible debentures	Total
June 30, 2018			
Principal amount outstanding[1]	$ 65,069	$ 172,500	$ 237,569
Less: Transaction costs (net of amortization)	(1,016)	(6,149)	(7,165)
Liability component on initial recognition	64,053	166,351	230,404
Debentures discount (net of amortization)	(4,834)	(11,199)	(16,033)
Convertible debentures	**$ 59,219**	**$ 155,152**	**$ 214,371**

(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$85,685 (2017 – C$85,693) was translated to U.S. dollars at the period-end exchange rate. In the first six months of 2018, C$8 principal amount of 2020 convertible debentures was converted into 816 common shares.

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 $67,766 (C$89,234) as of June 30, 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 $171,953 as of June 30, 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 serves 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 six months ended June 30, 2018 was $167 (2017 – nil). As at June 30, 2018, the outstanding principal amount was $7,508 (C$9,887). 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:

				Debt balance	
(in thousands of U.S. dollars)	Coupon/stated interest rates	Effective interest rates	Maturity dates	June 30, 2018	December 31, 2017
Fixed rate					
2020 convertible debentures	5.60%	6.46%	2020	$ 59,219	$ 60,951
2022 convertible debentures	5.75%	6.85%	2022	155,152	153,196
Mortgage	4.38%	4.43%	2024	7,508	7,957
Lease obligation	N/A	5.60%	2026	1,230	–
Total fixed-rate debt	**5.63%**	**6.66%**		**$ 223,109**	**$ 222,104**
Variable rate					
Revolving term credit facility	LIBOR+3.75%	5.16%	2020	194,550	161,500
Total debt				**$ 417,659**	**$ 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	Lease obligation	Total
2018	$ –	$ –	$ 101	$ 55	$ 156
2019	–	–	181	118	299
2020	194,550	65,069	188	131	259,938
2021	–	–	197	144	341
2022	–	172,500	205	158	172,863
2023 and thereafter	–	–	6,636	624	7,260
	194,550	237,569	7,508	1,230	440,857
Transaction costs (net of amortization)					(7,165)
Debentures discount (net of amortization)					(16,033)
Total debt					**$ 417,659**

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)	June 30, 2018	December 31, 2017
Trade payables and accrued liabilities	$ 7,214	$ 6,187
AIP liability (Note 15)	7,988	420
Income taxes payable	–	256
Interest payable	4,236	4,410
Total amounts payable and accrued liabilities	**$ 19,438**	**$ 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.

For the six months ended June 30, 2018, the fair value of the embedded derivative payable on the 2020 convertible debentures was $7,717, representing a decrease of $5,888 (C$6,906) (2017 – increase of $14,718). The fair value of the embedded derivative payable on the 2022 convertible debentures was $10,051, representing a decrease of $13,838 (2017 – increase of $8,600). 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 six months ended June 30, 2018; as a result, the shares issuable on conversion were included in the weighted average diluted shares outstanding for the six months ended June 30, 2018. The comparative period in 2017 excluded the impact of the assumed conversion of the 2020 and 2022 convertible debentures because the fair value impact of the embedded derivatives 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
June 30, 2018			
Derivative financial instruments – beginning of period	$ 13,605	$ 23,889	$ 37,494
Fair value changes (based on market price)	(5,888)	(13,838)	(19,726)
Derivative financial instruments – end of period	**$ 7,717**	**$ 10,051**	**$ 17,768**

(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$10,161 (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

	For the three months ended June 30		For the six months ended June 30	
(in thousands of U.S. dollars)	2018	2017	2018	2017
Income tax expense (recovery) – current	$ (298)	$ 1,573	$ 683	$ 2,691
Income tax expense (recovery) – deferred	3,353	(2,708)	11,938	(1,564)
Income tax expense (recovery) from continuing operations	**$ 3,055**	**$ (1,135)**	**$ 12,621**	**$ 1,127**
Income tax expense (recovery) from discontinued operations	**–**	**220**	**(1,957)**	**538**
Income tax expense	**$ 3,055**	**$ (915)**	**$ 10,664**	**$ 1,665**

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:

	For the three months ended June 30		For the six months ended June 30	
(in thousands of U.S. dollars)	2018	2017	2018	2017
Income (loss) before income taxes from continuing operations	$ 23,216	$ (24,171)	$ 128,726	$ (16,155)
Combined statutory federal and provincial income tax rate	26.50%	26.50%	26.50%	26.50%
Expected income tax expense	6,152	(6,405)	34,112	(4,281)
Non-taxable gains on investments	(5,488)	(73)	(16,654)	(1,734)
Non-taxable (gains) losses on derivative financial instruments	2,524	5,075	(5,228)	6,179
Foreign tax rate differential	(265)	288	(345)	512
Other, including permanent differences	132	(20)	736	451
Income tax expense (recovery) from continuing operations	**$ 3,055**	**$ (1,135)**	**$ 12,621**	**$ 1,127**

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

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Deferred income tax assets		
Deferred income tax assets to be recovered after more than 12 months	$ 29,630	$ 23,247
Deferred income tax assets to be recovered within 12 months	320	690
Total deferred income tax assets	**$ 29,950**	**$ 23,937**
Deferred income tax liabilities		
Deferred income tax liabilities reversing after more than 12 months	$ 64,205	$ 47,728
Deferred income tax liabilities reversing within 12 months	181	199
Total deferred income tax liabilities	**$ 64,386**	**$ 47,927**

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

(in thousands of U.S. dollars)	June 30, 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	9,981	8,416
Credit directly to equity	–	(2,054)
Other	465	(456)
Net deferred income tax liabilities – end of period	**$ 34,436**	**$ 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)	425	(393)	6,256	(275)	6,013
At June 30, 2018	**$ 4,626**	**$ 2,432**	**$ 22,173**	**$ 719**	**$ 29,950**

(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)	16,572	(65)	(48)	–	16,459
At June 30, 2018	**$ 63,669**	**$ 425**	**$ 292**	**$ –**	**$ 64,386**

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)	June 30, 2018	December 31, 2017
Placement fees	$ 6,232	$ 1,415
Rights to performance fees	95	127
Customer relationship intangible	4,502	4,759
Contractual development fees	12,095	13,715
Total intangible assets	**$ 22,924**	**$ 20,016**

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

On June 27, 2018, Tricon entered into a joint venture arrangement ("TAH JV-1") with two leading institutional investors to assemble a portfolio of single-family rental homes which will be acquired and managed by TAH (see Note 3). A placement fee was incurred by Tricon to establish TAH JV-1 in respect of one investor, from which Tricon expects to receive future asset management fees. The placement fee totaled $5,000 and will be amortized over the estimated life of TAH JV-1, which is eight 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 six months ended June 30, 2018 and June 30, 2017.

10. OTHER ASSETS

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
Building	$ 15,708	$ 13,295
Furniture, computer and office equipment	3,575	2,051
Right-of-use asset (Note 11)	1,189	–
Leasehold improvements	386	213
Goodwill	219	219
Total other assets	**$ 21,077**	**$ 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 $10,112 (C$13,316) along with development costs of $5,636 (C$7,422). The building became available for use during the quarter, and depreciation expense of $40 was recognized in the three and six months ended June 30, 2018.

11. LEASE OBLIGATION

On April 1, 2018, the Company entered into an agreement to lease office space at 260 California Street, San Francisco. The right-of-use asset and the corresponding lease obligation related to the office lease were initially recognized at $1,228 on April 1, 2018.

As at June 30, 2018, the carrying value of the Company's lease obligation was $1,230 (2017 – nil) and the carrying value of the right-of-use asset was $1,189. During the six months ended June 30, 2018, the Company incurred interest expense of $17 (2017 – nil) related to the lease obligation and depreciation expense of $39 (2017 – nil) on the right-of-use asset.

The present value of the minimum lease payments required for the lease over the next five years and thereafter is as follows:

(in thousands of U.S. dollars)	
2018	$ 89
2019	181
2020	187
2021	192
2022	198
2023 and thereafter	685
Minimum lease payments obligation	1,532
Imputed interest included in minimum lease payments	(302)
Lease obligation[1]	**$ 1,230**

(1) The current portion of the lease obligation is $55.

12. 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
May 9, 2018	June 30, 2018	July 16, 2018	133,849,419	0.070	0.053	9,369	7,115	3,046	2,319
						$ 18,718	**$ 14,361**	**$ 5,643**	**$ 4,380**
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 $7,115 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 six months ended June 30, 2018, 560,196 common shares were issued under the DRIP (2017 – 827,617) for a total amount of $4,487 (2017 – $6,608).

13. 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 June 30, 2018, the Company had 133,849,419 common shares outstanding (December 31, 2017 – 133,472,861).

	June 30, 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]	560,196	4,487	5,631	827,617	6,608	8,471
Stock options exercised[2]	70,320	470	593	146,734	722	949
Normal course issuer bid (NCIB)[3]	(431,931)	(2,310)	(2,865)	(982,900)	(5,249)	(6,512)
Deferred share units exercised[4]	177,157	1,279	1,626	396,514	2,627	3,464
Debentures conversion	816	6	8	3,877	28	38
Bought deal offering	–	–	–	20,326,250	141,140	193,311
Ending balance	**133,849,419**	**$ 717,485**	**$ 890,303**	**133,472,861**	**$ 713,553**	**$ 885,310**

(1) In the first six months of 2018, 560,196 common shares were issued under the DRIP at an average price of $8.01 (C$10.05) per share.

(2) In the first six months of 2018, 92,500 vested stock options were exercised and settled by issuing 70,320 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 second 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 the first six months of 2018, 177,157 common shares were issued for deferred share units (DSUs) exercised at an average price of $7.22 (C$9.18) per share.

14. EARNINGS (LOSS) PER SHARE

Basic

Basic earnings (loss) 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 June 30		For the six months ended June 30	
	2018	2017	2018	2017
Net income (loss) attributable to shareholders of Tricon from continuing operations	$ 19,925	$ (23,056)	$ 116,127	$ (17,186)
Net income attributable to shareholders of Tricon from discontinued operations	19,602	1,393	23,127	3,394
Net income (loss) attributable to shareholders of Tricon	$ 39,527	$ (21,663)	$ 139,254	$ (13,792)
Weighted average number of common shares outstanding	133,790,266	125,021,590	133,652,085	118,985,571
Adjustments for vested units	737,804	468,977	737,804	468,977
Weighted average number of common shares outstanding for basic earnings per share	134,528,070	125,490,567	134,389,889	119,454,548
Basic earnings (loss) per share				
Continuing operations	$ 0.15	$ (0.18)	$ 0.87	$ (0.14)
Discontinued operations	0.14	0.01	0.17	0.02
Basic earnings (loss) per share	**$ 0.29**	**$ (0.17)**	**$ 1.04**	**$ (0.12)**

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, deferred share units (Note 15) and the convertible debentures (Note 7). For the stock options and 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 June 30, 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 June 30, 2018, the Company's stock compensation plans resulted in 1,866,005 dilutive share units (2017 – 2,662,675) as the exercise price of the potential share units is below the average market share price of $8.06 (C$10.41) for the period.

For the six months ended June 30, 2018, the Company's stock compensation plans resulted in 1,867,357 dilutive share units (2017 – 2,536,520) as the exercise price of the potential share units is below the average market share price of $8.15 (C$10.41) for the period.

Convertible debentures

For the three months ended June 30, 2018, both of the Company's convertible debentures are anti-dilutive, as debentures interest expense, net of tax, and the net change in fair value of derivative financial instruments would result in increased 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 June 30, 2018, the impact of the 2020 and 2022 convertible debentures was excluded (2017 – excluded).

For the six months ended June 30, 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 six months ended June 30, 2018, the impact of the 2020 and 2022 convertible debentures was included (2017 – excluded).

(in thousands of U.S. dollars, except per share amounts which are in U.S. dollars)	For the three months ended June 30		For the six months ended June 30	
	2018	2017	2018	2017
Net income (loss) attributable to shareholders of Tricon from continuing operations	$ 19,925	$ (23,056)	$ 116,127	$ (17,186)
Adjustment for convertible debentures interest expense – net of tax	–	–	7,501	–
Net change in fair value of financial instruments through profit or loss	–	–	(19,726)	–
Adjusted net income (loss) attributable to shareholders of Tricon from continuing operations	19,925	(23,056)	103,902	(17,186)
Net income attributable to shareholders of Tricon from discontinued operations	19,602	1,393	23,127	3,394
Adjusted net income (loss) attributable to shareholders of Tricon	$ 39,527	$ (21,663)	$ 127,029	$ (13,792)
Weighted average number of common shares outstanding	134,528,070	125,490,567	134,389,889	119,454,548
Adjustments for stock compensation	1,866,005	2,662,675	1,867,357	2,536,520
Adjustments for convertible debentures	–	–	25,235,490	–
Weighted average number of common shares outstanding for diluted earnings per share	136,394,075	128,153,242	161,492,736	121,991,068
Diluted earnings (loss) per share				
Continuing operations	$ 0.15	$ (0.18)	$ 0.65	$ (0.14)
Discontinued operations	0.14	0.01	0.14	0.03
Diluted earnings (loss) per share	**$ 0.29**	**$ (0.17)**	**$ 0.79**	**$ (0.11)**

15. 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:

	For the three months ended June 30		For the six months ended June 30	
(in thousands of U.S. dollars)	2018	2017	2018	2017
Salaries and benefits	$ 3,637	$ 3,787	$ 7,245	$ 7,168
Annual incentive plan ("AIP")	4,920	4,795	8,969	7,233
Long-term incentive plan ("LTIP")	1,398	1,191	3,464	584
Total compensation expense	**$ 9,955**	**$ 9,773**	**$ 19,678**	**$ 14,985**

For the three months ended June 30	2018		2017	
(in thousands of U.S. dollars)	AIP	LTIP	AIP	LTIP
Cash component	$ 3,981	$ 760	$ 2,874	$ 590
Share units	904	285	1,894	255
Stock options	–	300	–	302
DRIP and revaluation loss	35	53	27	44
Total AIP and LTIP expenses	**$ 4,920**	**$ 1,398**	**$ 4,795**	**$ 1,191**

For the six months ended June 30	2018		2017	
(in thousands of U.S. dollars)	AIP	LTIP	AIP	LTIP
Cash component	$ 6,375	$ 2,092	$ 4,383	$ (381)
Share units	2,500	620	2,832	791
Stock options	–	616	–	702
DRIP and revaluation loss (gain)	94	136	18	(528)
Total AIP and LTIP expenses	**$ 8,969**	**$ 3,464**	**$ 7,233**	**$ 584**

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 – 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.

For the six months ended June 30, 2018, the Company recognized $8,875 (2017 – $7,215) in relation to the AIP, of which $6,375 will be settled in cash in December 2018. The AIP expense for the six months ended June 30, 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 six months ended June 30, 2018, the Company increased its accrual related to cash-component LTIP by $2,092 (2017 – $381 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 to management when cash is received from each investment over time.

Share units

AIP – For the six months ended June 30, 2018, the Company accrued $2,500 in AIP expense (2017 – $2,832), 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. PSUs will be payable in cash after three years as per the new AIP framework discussed above.

LTIP – For the six months ended June 30, 2018, the Company accrued $620 in LTIP expense (2017 – $791) 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 six months ended June 30, 2018 is comprised of $7 relating to the current-year entitlement and $613 relating to the prior-year entitlements.

Stock option plan

During the six months ended June 30, 2018, no stock options were granted (2017 – nil), and 92,500 stock options were exercised (2017 – 394,001). For the six months ended June 30, 2018, the Company recorded an expense of $616 (2017 – $702) 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 June 30, 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	(92,500)	7.50	(804,000)	8.89
Forfeited	–	–	(41,834)	9.41
Ending balance – outstanding	**4,398,501**	**$ 9.11**	**4,491,001**	**$ 9.08**

		June 30, 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	590,334	590,334	6.81
November 25, 2013	November 25, 2020	148,333	148,333	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		**4,398,501**	**2,586,829**	**$ 9.11**

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)	June 30, 2018	December 31, 2017
Amounts payable and accrued liabilities (Note 6)	$ 7,988	$ 420
Equity – contributed surplus	6,305	5,535
Total AIP	**$ 14,293**	**$ 5,955**

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

(in thousands of U.S. dollars)	June 30, 2018	December 31, 2017
LTIP – liability	$ 16,154	$ 15,224
Equity – contributed surplus	10,182	9,877
Total LTIP	**$ 26,336**	**$ 25,101**

16. 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 disposed of in the current period, as follows: Private Funds and Advisory ("PF&A"); and principal investing in Tricon American Homes ("TAH"), Tricon Housing Partners ("THP"), Tricon Lifestyle Rentals ("TLR") and Tricon Lifestyle Communities ("TLC") (disposed of in the current period). 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 June 30, 2018	PF&A	TAH	THP	TLR	TLC	Corporate	Total
Revenue	$ 7,474	$ –	$ –	$ –	$ –	$ –	$ 7,474
Investment income	–	40,681	3,312	2,547	–	–	46,540
	7,474	40,681	3,312	2,547	–	–	54,014
Expenses	–	–	–	–	–	(20,946)	(20,946)
Interest expense	–	–	–	–	–	(8,603)	(8,603)
Amortization and depreciation expense	–	–	–	–	–	(1,249)	(1,249)
Income tax expense	–	–	–	–	–	(3,055)	(3,055)
Net income from continuing operations	7,474	40,681	3,312	2,547	–	(33,853)	20,161
Net income from discontinued operations	–	–	–	–	19,602	–	19,602
Net income	**$ 7,474**	**$ 40,681**	**$ 3,312**	**$ 2,547**	**$ 19,602**	**$ (33,853)**	**$ 39,763**

(in thousands of U.S. dollars)

For the three months ended June 30, 2017	PF&A	TAH	THP	TLR	TLC	Corporate	Total
Revenue	$ 6,359	$ –	$ –	$ –	$ –	$ –	$ 6,359
Investment income (loss)	–	(1,954)	6,568	2,847	–	–	7,461
	6,359	(1,954)	6,568	2,847	–	–	13,820
Expenses	–	–	–	–	–	(30,135)	(30,135)
Interest expense	–	–	–	–	–	(6,478)	(6,478)
Amortization and depreciation expense	–	–	–	–	–	(1,378)	(1,378)
Income tax recovery	–	–	–	–	–	1,135	1,135
Net income (loss) from continuing operations	6,359	(1,954)	6,568	2,847	–	(36,856)	(23,036)
Net income from discontinued operations	–	–	–	–	1,393	–	1,393
Net income (loss)	**$ 6,359**	**$ (1,954)**	**$ 6,568**	**$ 2,847**	**$ 1,393**	**$ (36,856)**	**$ (21,643)**

(in thousands of U.S. dollars)

For the six months ended June 30, 2018	PF&A	TAH	THP	TLR	TLC	Corporate	Total
Revenue	$ 13,041	$ –	$ –	$ –	$ –	$ –	$ 13,041
Investment income	–	127,123	6,197	3,564	–	–	136,884
	13,041	127,123	6,197	3,564	–	–	149,925
Other income	–	–	–	–	–	(2,150)	(2,150)
Interest expense	–	–	–	–	–	(16,567)	(16,567)
Amortization and depreciation expense	–	–	–	–	–	(2,482)	(2,482)
Income tax expense	–	–	–	–	–	(12,621)	(12,621)
Net income from continuing operations	13,041	127,123	6,197	3,564	–	(33,820)	116,105
Net income from discontinued operations	–	–	–	–	23,127	–	23,127
Net income	**$ 13,041**	**$ 127,123**	**$ 6,197**	**$ 3,564**	**$ 23,127**	**$ (33,820)**	**$ 139,232**

(in thousands of U.S. dollars)

For the six months ended June 30, 2017	PF&A	TAH	THP	TLR	TLC	Corporate	Total
Revenue	$ 12,103	$ –	$ –	$ –	$ –	$ –	$ 12,103
Investment income	–	10,315	12,236	4,778	–	–	27,329
	12,103	10,315	12,236	4,778	–	–	39,432
Expenses	–	–	–	–	–	(43,014)	(43,014)
Interest expense	–	–	–	–	–	(9,794)	(9,794)
Amortization and depreciation expense	–	–	–	–	–	(2,779)	(2,779)
Income tax expense	–	–	–	–	–	(1,127)	(1,127)
Net income (loss) from continuing operations	12,103	10,315	12,236	4,778	–	(56,714)	(17,282)
Net income from discontinued operations	–	–	–	–	3,394	–	3,394
Net income (loss)	**$ 12,103**	**$ 10,315**	**$ 12,236**	**$ 4,778**	**$ 3,394**	**$ (56,714)**	**$ (13,888)**

17. RELATED PARTY TRANSACTIONS AND BALANCES

The Company had a ten-year sub-lease commitment on the previous head office premises with Mandukwe Inc., a company owned and controlled by a current director and shareholder of Tricon. For the six months ended June 30, 2018, the Company paid $103 in rental payments to Mandukwe Inc., including realty taxes, maintenance, insurance and utility costs (2017 – $151). As at June 30, 2018, the Company terminated the sub-lease and recognized an early termination liability of $128 (C$169).

Transactions with related parties

The following table summarizes revenue earned from related parties, including revenue earned by consolidated subsidiaries. These are contractual arrangements with investments 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.

	For the three months ended June 30		For the six months ended June 30	
(in thousands of U.S. dollars)	2018	2017	2018	2017
Contractual fees	$ 6,283	$ 5,673	$ 11,486	$ 11,081
General partner distributions	353	331	709	664
Performance fees	838	355	846	358
Total revenue	**$ 7,474**	**$ 6,359**	**$ 13,041**	**$ 12,103**
Investment income (loss) – Tricon American Homes	$ 40,681	$ (1,954)	$ 127,123	$ 10,315
Investment income – Tricon Housing Partners	3,312	6,568	6,197	12,236
Investment income – Tricon Lifestyle Rentals	2,547	2,847	3,564	4,778
Total investment income from continuing operations	**$ 46,540**	**$ 7,461**	**$ 136,884**	**$ 27,329**
Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities	**$ 19,602**	**$ 1,613**	**$ 21,170**	**$ 3,932**

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)	June 30, 2018	December 31, 2017
Receivables from related parties included in amounts receivable		
Contractual fees receivable from investments managed	$ 324	$ 1,609
Other receivables	2,490	5,381
Employee relocation housing loans[1]	2,678	670
Proceeds from disposal of investments held for sale	7,186	–
Loan receivables from investments in associates and joint ventures	21,014	21,903
Annual incentive plan	14,293	5,955
Long-term incentive plan	26,336	25,101
Dividends payable	339	320
Other payables to related parties included in amounts payable and accrued liabilities	202	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 June 30, 2018 (December 31, 2017 – nil).

18. 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 and Tricon Lifestyle Rentals. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational and financing costs. Liquidity risk arising 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 June 30, 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	$ 19,438	$ –	$ –	$ –	$ 19,438
Dividends payable	7,115	–	–	–	7,115
Revolving term credit facility	–	194,550	–	–	194,550
Debentures payable	–	65,069	172,500	–	237,569
Mortgage	101	369	402	6,636	7,508
Lease obligation	55	249	302	624	1,230
Derivative financial instruments	–	7,717	10,051	–	17,768
Total	**$ 26,709**	**$ 267,954**	**$ 183,255**	**$ 7,260**	**$ 485,178**

(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 six months ended June 30, 2018, the change in the Company's liquidity resulted in a working capital surplus of $13,219 (December 31, 2017 – surplus of $10,581). As of June 30, 2018, the outstanding amount under the credit facility was $194,550 (December 31, 2017 – $161,500) and $170,450 of the credit facility remained available to the Company. During the six months ended June 30, 2018, the Company received distributions of $121,825 (2017 – $72,620) from its investments and investments held for sale.

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

(in thousands of U.S. dollars) As at June 30, 2018	Within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Principal					
2020 convertible debentures[1]	$ –	$ 65,069	$ –	$ –	$ 65,069
2022 convertible debentures	–	–	172,500	–	172,500
Mortgage[1]	101	369	402	6,636	7,508
Lease obligation	55	249	302	624	1,230
Interest					
2020 convertible debentures[1]	3,644	3,644	–	–	7,288
2022 convertible debentures	9,919	19,837	9,919	–	39,675
Mortgage[1]	190	628	594	513	1,925
Lease obligation	34	119	88	61	302
Total	**$ 13,943**	**$ 89,915**	**$ 183,805**	**$ 7,834**	**$ 295,497**

(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)	June 30, 2018	December 31, 2017
Cash	$ 21,792	$ 14,813
Amounts receivable	17,657	13,506
Prepaid expenses and deposits	479	622
Current assets	39,928	28,941
Amounts payable and accrued liabilities	19,438	11,273
Dividends payable	7,115	6,906
Mortgage	101	181
Lease obligation	55	–
Net current assets	**$ 13,219**	**$ 10,581**

19. 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 June 30, 2018, the Company was in compliance with all financial covenants (Note 5).

20. WORKING CAPITAL CHANGES

(in thousands of U.S. dollars)

For the six months ended June 30	2018	2017
Amounts receivable	$ (4,151)	$ (1,289)
Prepaid expenses and deposits	143	(1,592)
Amounts payable and accruals	8,165	10,011
	$ 4,157	**$ 7,130**

21. FINANCING ACTIVITIES

			Non-cash changes				
(in thousands of U.S. dollars)	As at December 31, 2017	Cash flows	Foreign exchange movement	Fair value changes	Addition	Other[1]	As at June 30, 2018
Revolving term credit facility	$ 161,500	$ 33,050	$ –	$ –	$ –	$ –	$ 194,550
2020 convertible debentures	60,951	–	(3,237)	–	–	1,505	59,219
2022 convertible debentures	153,196	–	–	–	–	1,956	155,152
Derivative financial instruments	37,494	–	–	(19,726)	–	–	17,768
Mortgage	7,957	(74)	(375)	–	–	–	7,508
Lease obligation	–	(15)	–	–	1,228	17	1,230
Total liabilities from financing activities	**$ 421,098**	**$ 32,961**	**$ (3,612)**	**$ (19,726)**	**$ 1,228**	**$ 3,478**	**$ 435,427**

(1) Includes amortization of debenture discounts and issuance costs and interest on lease obligation.

22. SUBSEQUENT EVENTS

On August 7, 2018, the Board of Directors of the Company declared a dividend of seven cents per share in Canadian dollars payable on or after October 15, 2018 to shareholders of record on September 30, 2018.

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