Rethinking Residential Real Estate

CONSOLIDATED FINANCIAL STATEMENTS

for the Year Ended December 31, 2018

TRICON

Independent auditor's report

To the Shareholders of Tricon Capital Group Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Tricon Capital Group Inc. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited
The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2018 and 2017;
- the consolidated statements of comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence
We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis, which we obtained prior to the date of this auditor's report and the information, other than the consolidated financial statements and our auditor's report thereon, included in the 2018 annual report, which is expected to be made available to us after that date.

PricewaterhouseCoopers LLP
PwC Tower, 18 York Street, Suite 2600, Toronto, Ontario, Canada M5J 0B2
T: +1 416 863 1133, F: +1 416 365 8215

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard. When we read the information, other than the consolidated financial statements and our auditor's report thereon, included in the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Derek Hatoum.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
February 25, 2019

CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Cash		$ 7,773	$ 14,813
Amounts receivable		17,934	13,506
Prepaid expenses and deposits		819	622
Investments – Tricon American Homes	4, 5	1,145,221	884,115
Investments – Tricon Lifestyle Rentals	4, 5	129,838	89,225
Investments – Tricon Housing Partners	4, 5	307,564	306,637
Investments held for sale – Tricon Lifestyle Communities	4, 5	–	62,074
Intangible assets	10	20,733	20,016
Deferred income tax assets	9	36,135	23,937
Other assets	11, 12	21,645	15,778
Total assets		**$ 1,687,662**	**$ 1,430,723**
LIABILITIES			
Amounts payable and accrued liabilities	7	$ 6,429	$ 11,273
Dividends payable	13	7,350	6,906
Long-term incentive plan	16	21,407	15,224
Debt	6, 12	374,716	383,604
Deferred income tax liabilities	9	81,226	47,927
Derivative financial instruments	8	3,936	37,494
Total liabilities		**495,064**	**502,428**
Equity			
Share capital	14	793,521	713,553
Contributed surplus		17,468	16,754
Cumulative translation adjustment		19,525	19,184
Retained earnings		353,220	167,849
Total shareholders' equity		1,183,734	917,340
Non-controlling interest		8,864	10,955
Total equity		**1,192,598**	**928,295**
Total liabilities and equity		**$ 1,687,662**	**$ 1,430,723**

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

Approved by the Board of Directors

David Berman

Michael Knowlton

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

For the years ended	Notes	December 31, 2018	December 31, 2017
Revenue			
Contractual fees	2, 17	$ 26,256	$ 23,486
General partner distributions	2, 17	1,316	1,388
Performance fees	2, 17	2,775	525
		30,347	25,399
Investment income			
Investment income – Tricon American Homes	17, 18	218,932	113,067
Investment income – Tricon Lifestyle Rentals	17, 18	15,406	12,391
Investment income – Tricon Housing Partners	17, 18	11,449	18,209
		245,787	143,667
		276,134	169,066
Expenses			
Compensation expense	16	36,875	29,100
General and administration expense		9,800	7,274
Interest expense	6	31,686	23,721
Net change in fair value of derivative financial instruments	8	(27,680)	23,276
Loss on debt extinguishment	6	5,349	–
Transaction costs		90	3,167
Amortization and depreciation expense		5,540	5,375
Realized and unrealized foreign exchange (gain) expense		(1,511)	1,881
		60,149	93,794
Income before income taxes		**215,985**	**75,272**
Income tax expense – current	9	(639)	(4,889)
Income tax expense – deferred	9	(22,118)	(7,440)
Net income from continuing operations		**$ 193,228**	**$ 62,943**
Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities	17, 18	21,170	7,381
Income tax recovery (expense) from discontinued operations – deferred	9	1,957	(976)
Net income from discontinued operations		**$ 23,127**	**$ 6,405**
Net income		**$ 216,355**	**$ 69,348**
Attributable to:			
Shareholders of Tricon		215,951	69,252
Non-controlling interest		404	96
Net income		**$ 216,355**	**$ 69,348**
Other comprehensive income			
Items that will be reclassified subsequently to net income			
Cumulative translation reserve		341	473
Comprehensive income for the year		**$ 216,696**	**$ 69,821**
Attributable to:			
Shareholders of Tricon		$ 216,292	$ 69,725
Non-controlling interest		404	96
Comprehensive income for the year		**$ 216,696**	**$ 69,821**
Basic earnings per share attributable to shareholders of Tricon			
Continuing operations	15	$ 1.40	$ 0.49
Discontinued operations	15	0.17	0.05
Basic earnings per share attributable to shareholders of Tricon	15	**$ 1.57**	**$ 0.54**
Diluted earnings per share attributable to shareholders of Tricon			
Continuing operations	15	$ 1.14	$ 0.49
Discontinued operations	15	0.14	0.05
Diluted earnings per share attributable to shareholders of Tricon	15	**$ 1.28**	**$ 0.54**
Weighted average shares outstanding – basic	15	**137,157,260**	**127,152,721**
Weighted average shares outstanding – diluted	15	**162,112,882**	**129,302,655**

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(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		–	–	–	215,951	215,951	404	216,355
Cumulative translation reserve		–	–	341	–	341	–	341
Distributions to non-controlling interest		–	–	–	–	–	(2,495)	(2,495)
Dividends/Dividend reinvestment plan	13	9,138	–	–	(29,157)	(20,019)	–	(20,019)
Repurchase of common shares	14	(2,310)	–	–	(1,423)	(3,733)	–	(3,733)
Debentures conversion	14	72,125	–	–	–	72,125	–	72,125
Stock options	16	470	1,147	–	–	1,617	–	1,617
Shares repurchased and reserved for restricted share awards	16	(1,723)	–	–	–	(1,723)	–	(1,723)
Deferred share units	16	2,268	(433)	–	–	1,835	–	1,835
Balance at December 31, 2018		**$ 793,521**	**$ 17,468**	**$ 19,525**	**$ 353,220**	**$ 1,183,734**	**$ 8,864**	**$ 1,192,598**
Balance at January 1, 2017		**$ 567,677**	**$ 15,835**	**$ 18,711**	**$ 127,691**	**$ 729,914**	**$ 13,747**	**$ 743,661**
Net income		–	–	–	69,252	69,252	96	69,348
Cumulative translation reserve		–	–	473	–	473	–	473
Distributions to non-controlling interest		–	–	–	–	–	(2,888)	(2,888)
Dividends/Dividend reinvestment plan	13	6,608	–	–	(26,100)	(19,492)	–	(19,492)
Repurchase of common shares	14	(5,249)	–	–	(2,994)	(8,243)	–	(8,243)
Debentures conversion	14	28	–	–	–	28	–	28
Bought deal offering	14	141,140	–	–	–	141,140	–	141,140
Stock options	16	722	329	–	–	1,051	–	1,051
Deferred share units	16	2,627	590	–	–	3,217	–	3,217
Balance at December 31, 2017		**$ 713,553**	**$ 16,754**	**$ 19,184**	**$ 167,849**	**$ 917,340**	**$ 10,955**	**$ 928,295**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of U.S. dollars)

For the years ended	Notes	December 31, 2018	December 31, 2017
CASH PROVIDED BY (USED IN)			
Operating activities			
Net income		$ 216,355	$ 69,348
Adjustments for non-cash items			
Amortization and depreciation expense	11, 12	5,540	5,375
Deferred income taxes	9	20,161	8,416
Long-term incentive plan	16	10,254	3,447
Annual incentive plan	16	2,084	2,727
Amortization of debentures discount and issuance costs		5,922	5,509
Accrued investment income – Tricon American Homes	5	(218,932)	(113,067)
Accrued investment income – Tricon Lifestyle Rentals	5	(15,406)	(12,391)
Accrued investment income – Tricon Housing Partners	5	(11,449)	(18,209)
Accrued investment income from discontinued operations – Tricon Lifestyle Communities	5	(21,170)	(7,381)
Net change in fair value of derivative financial instruments	8	(27,680)	23,276
Loss on debt extinguishment	6	5,349	–
Unrealized foreign exchange (gain) loss		(164)	3,238
Distributions to non-controlling interest		(2,495)	(2,888)
Advances made to investments	5	(205,086)	(390,030)
Distributions received from investments	5	148,227	97,855
		(88,490)	(324,775)
Changes in non-cash working capital items	21	(9,469)	5,744
Net cash (used in) provided by operating activities from continuing operations		**(97,959)**	**(319,031)**
Advances made to investments held for sale	5	(304)	(2,102)
Proceeds from disposal of investments held for sale	5	80,944	–
Net cash (used in) provided by operating activities from discontinued operations		**80,640**	**(2,102)**
Net cash (used in) provided by operating activities		**(17,319)**	**(321,133)**
Investing activities			
Purchase of building, furniture, office and computer equipment, and leasehold improvements	11	(7,087)	(14,824)
Placement fees	10	(5,000)	–
Net cash (used in) provided by investing activities		**(12,087)**	**(14,824)**
Financing activities			
Lease payments	12	(104)	–
Issuance (repurchase) of common shares – net of issuance costs	14	(5,456)	130,843
Debt financing, net	6	47,574	55,592
Issuance of convertible debentures – net of deferred financing costs	6	–	164,554
Dividends paid	13	(19,584)	(18,032)
Net cash (used in) provided by financing activities		**22,430**	**332,957**
Effect of foreign exchange rate difference on cash		**(64)**	**33**
Change in cash during the year		**(7,040)**	**(2,967)**
Cash – beginning of year		**14,813**	**17,780**
Cash – end of year		**$ 7,773**	**$ 14,813**
Supplementary information			
Cash paid on			
Income taxes		**$ 2,638**	**$ 4,370**
Interest		**$ 26,900**	**$ 13,664**

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

1. NATURE OF BUSINESS

Tricon Capital Group Inc. ("Tricon" or the "Company") is an investment manager focused on the residential real estate industry in North America. The Company primarily invests through Tricon American Homes ("TAH"), Tricon Lifestyle Rentals ("TLR") and Tricon Housing Partners ("THP"). In Private Funds and Advisory, the Company manages third-party capital across its TAH, TLR and THP investments through private commingled funds, separate accounts, syndicated investments and joint ventures ("Investment Vehicles"). Tricon manages capital on behalf of Canadian, American and international institutional investors, including pension funds, sovereign wealth funds, insurance companies, endowments and foundations, as well as family offices and high net-worth accredited investors. As 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 consolidated financial statements were approved for issue on February 25, 2019 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 consolidated financial statements.

Basis of preparation and measurement

The 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as set out in the CPA Canada Handbook – Accounting. The preparation of consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying Tricon's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions are significant to the consolidated financial statements, are disclosed in Note 3.

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

The Company presents its consolidated balance sheet with its assets and liabilities in decreasing order of liquidity. The notes to the consolidated financial statements provide information on the Company's current assets and current liabilities (Note 19). The Company believes this presentation is more relevant given the nature of the Company's operations, which do not have specifically identifiable operating cycles.

Accounting standards adopted in the current year

IFRS 15, Revenue from Contracts with Customers

Effective January 1, 2018, the Company has adopted IFRS 15, Revenue from Contracts with Customers ("IFRS 15"), 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.

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. This includes managing investments in Tricon American Homes, Tricon Lifestyle Rentals and Tricon Housing Partners. 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.

For general partner distributions, 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. 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.

IFRS 9, Financial Instruments

In July 2014, the IASB issued IFRS 9, Financial Instruments (''IFRS 9''), which replaced IAS 39, Financial Instruments: Recognition and Measurement, effective January 1, 2018. IFRS 9 provides new guidance on the classification and measurement, impairment and hedge accounting for financial instruments in addition to clarification for the treatment of modifications of financial liabilities. The Company implemented the new requirements for classification and measurement including impairment on January 1, 2018 retrospectively and elected not to restate comparative periods. The adoption of the new classification requirements under IFRS 9 did not result in significant changes in measurement or the carrying amount of financial assets and liabilities. The Company also applied related amendments to IFRS 7, Financial Instruments: Disclosures.

Classification and Measurement: IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Financial assets are initially measured at fair value and subsequently classified and measured in one of three categories: amortized cost, fair value through other comprehensive income ("FVOCI") and FVTPL. Financial liabilities are also measured at fair value at initial recognition and subsequently classified and measured in one of two categories: amortized cost or FVTPL. The following table summarizes the classification impacts upon the adoption of IFRS 9.

Assets/Liabilities	Classification under IAS 39	Classification under IFRS 9
Cash	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Equity investments	FVTPL	FVTPL
Debt investments	FVTPL	FVTPL
Amounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Dividends payable	Other financial liabilities	Amortized cost
Debt	Other financial liabilities	Amortized cost
Derivative financial instruments	FVTPL	FVTPL

Impairment: IFRS 9 replaces the incurred loss model in IAS 39 with a forward-looking expected credit loss ("ECL") model. The ECL model requires considerable judgment, including consideration of how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model is applied, at each balance sheet date, to financial assets measured at amortized cost or those measured at FVOCI, except for investments in equity instruments. The Company adopted the practical expedient to determine ECL on amounts receivable using a provision matrix based on forward-looking macroeconomic information to estimate lifetime ECL. Given the short-term nature of the Company's amounts receivable, the low default rate and the creditworthiness of the counterparties, there was no material impact on the carrying value of the Company's amounts 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 modification to the terms of borrowing during the year. Modification gains or losses are 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 refinancing occurred during 2018.

IFRS 9 also introduces a new hedge accounting standard. IFRS 9 requires the Company to ensure that hedge accounting relationships are aligned with the Company's risk management objectives and strategies and to apply a more qualitative and forward-looking approach to assessing hedge effectiveness. The Company does not currently apply hedge accounting, and therefore is not impacted by this aspect of IFRS 9.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), 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 representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low-value items. 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 early adopted IFRS 16 in its consolidated financial statements effective January 1, 2018, using the modified retrospective approach on transition, together with its adoption of IFRS 15. The adoption of IFRS 16 resulted in the recognition of right-of-use assets and liabilities on the Company's existing leases as of January 1, 2018, as well as new leases entered into during the year. The Company used the following practical expedients when following the modified retrospective approach:

- accounted for lease and non-lease components as a single lease component;
- used a single discount rate for a portfolio of leases with reasonably similar characteristics;
- applied IFRS 16 only to contracts previously identified as leases;
- excluded initial direct costs from the measurement of the right-of-use asset on transition;
- excluded short-term leases; and
- excluded low-value leases.

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. The Company entered into a new lease arrangement during the year which has been accounted for in accordance with IFRS 16, and is described in Note 12.

IFRIC 22, Foreign Currency Transactions and Advance Consideration

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.

Foreign currency translation

Currency translation

Foreign currency transactions (Canadian dollar) are translated into U.S. dollars using exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the exchange rate in effect at the measurement date. Non-monetary assets and liabilities denominated in foreign currencies are translated into U.S. dollars using the historical exchange rate or the exchange rate in effect at the measurement date for items recognized at FVTPL. Gains and losses arising from foreign exchange are included in the statement of comprehensive income.

Subsidiaries

For subsidiaries that are required to be consolidated, the results and financial position of those subsidiaries with a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities are translated at the closing rate at the date of the balance sheet;

(ii) income and expenses are translated at average exchange rates. The Company uses monthly average exchange rates due to the volume of transactions each month; and

(iii) all resulting exchange differences are recognized in other comprehensive income.

The consolidated subsidiaries and their respective functional currencies are as follows:

Name	Functional currency
Tricon Holdings Canada Inc.	U.S. dollar
Tricon Housing Partners US II (Canada) GP Ltd.	Canadian dollar
Tricon Capital GP Inc.	Canadian dollar
Tricon Housing Partners US Co-Investment Inc.	U.S. dollar
Tricon Housing Partners US II A Incentive LP	U.S. dollar
Tricon Housing Partners US II B/C Incentive LP	U.S. dollar
Tricon Holdings USA LLC	U.S. dollar
Tricon USA Inc.	U.S. dollar
Tricon JDC LLC	U.S. dollar
Tricon Development Group Ltd.	Canadian dollar
Tricon Luxury Residences PM Inc.	Canadian dollar
Tricon US TopCo LLC	U.S. dollar
Tricon US FTA LLC	U.S. dollar
CCR Texas Agent Inc.	U.S. dollar
Tricon Head Office Inc.	Canadian dollar
SFR JV-1 GP LLC	U.S. dollar
SFR JV-1 Class B LLC	U.S. dollar
SFR JV-1 Class B REIT LLC	U.S. dollar

Consolidation

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The Company meets the definition of an investment entity and, as such, investments in subsidiaries (other than those that provide investment-related services) are accounted for at FVTPL, rather than by consolidating them. All of the subsidiaries that provide investment-related services, including the Company's Canadian and U.S. asset management operating entities that earn contractual fees and performance fees from private funds, continue to be consolidated.

The Company applies the acquisition method to account for business combinations. The consideration for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Company recognizes any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of the acquiree's identifiable net assets. The amounts attributable to non-controlling interests are presented separately in the statement of comprehensive income below net income, and are included in the equity section of the balance sheet.

Acquisition-related costs are expensed as incurred.

Inter-company transactions, balances and unrealized gains or losses on transactions between the companies are eliminated. Amounts reported by subsidiaries have been adjusted to conform with the Company's accounting policies.

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

Investments in associates

Associates are all entities over which the Company has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Associates that are held as part of the Company's investment portfolio are carried on the balance sheet at fair value even though the Company may have significant influence over those companies. This treatment is permitted by IAS 28, Investment in Associates, which allows investments that are held by the Company to be recognized and measured at FVTPL and accounted for in accordance with IFRS 9 and IFRS 13, with changes in fair value recognized in the statement of comprehensive income.

Fixed assets

Building, furniture, office equipment, computer equipment and leasehold improvements are accounted for at cost less accumulated depreciation and impairment. On November 22, 2017, the Company acquired a commercial condominium, which serves as the Company's new head office in Toronto and has an estimated useful life of 30 years (Note 11). The building became available for use during the second quarter of 2018. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the fixed assets, as follows:

Building	30 years
Furniture and office equipment	2–5 years
Computer equipment	2–5 years
Leasehold improvements	5 years

Estimated useful lives of fixed assets are reviewed and adjusted, if appropriate, at each financial year-end. As described below in Impairment of non-financial assets, fixed assets are also reviewed at each balance sheet date to determine whether there is an indication of impairment.

Placement fees and rights to performance fees intangible assets

Placement fees represent costs incurred to secure investment management contracts. Performance fee rights represent costs incurred to obtain rights to receive future performance fees from certain Investment Vehicles. These are accounted for as intangible assets carried at cost less accumulated amortization. Amortization is recorded using the straight-line method and is based on the estimated useful lives of the associated Investment Vehicles, which is generally eight years.

Johnson intangibles

The contractual development fee intangibles from Johnson represent an estimate of the future management fees, development fees and commissions that Tricon expects to collect over the lives of the projects that The Johnson Companies LP ("Johnson") managed at the time of the business combination. They are amortized by project over the estimated periods that the Company expects to collect these fees, which is approximately seven years for management fees and lot development fees.

The customer relationship intangible from Johnson represents an estimate of the potential management fees, development fees and commissions that Tricon could collect, based on potential future projects resulting from Johnson's existing customer relationships at the time of the business combination, and as such are considered to be definite-life intangibles.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred over the Company's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to a cash-generating unit as it is the lowest level within the Company at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the greater of value in use and the fair value less costs of disposal. Any impairment is recognized immediately as an expense and is not subsequently reversed.

Impairment of non-financial assets

Assets that are subject to amortization and depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets are reviewed for possible impairment or reversal of a previously recorded impairment at each reporting date. Other long-lived assets include goodwill and it is reviewed for impairment annually or at any time if an indicator of impairment exists.

Financial instruments

Financial assets

The Company's financial assets are comprised of cash, amounts receivable and investments in Tricon American Homes, Tricon Lifestyle Rentals and Tricon Housing Partners.

Transaction costs related to investments are expensed as incurred in the statement of comprehensive income.

Gains and losses arising from changes in the fair value of investments are presented in the statement of comprehensive income within investment income.

Financial assets and liabilities classified and measured at FVTPL are presented within changes in operating assets and liabilities in the consolidated statements of cash flows.

Financial assets are derecognized only when the contractual rights to the cash flows from the financial assets expire or the Company transfers substantially all of the risks and rewards of ownership.

The Company assesses, at each balance sheet date, whether or not there is an expected credit loss with respect to amounts receivable. If in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed, to the extent that the carrying value of the receivable does not exceed its amortized cost at the reversal date. Any subsequent reversal of an impairment loss is recognized in net income.

Financial liabilities

Liabilities within the scope of IFRS 9 are classified and subsequently measured at FVTPL or amortized cost, as appropriate.

A financial liability is derecognized when the obligation under the liability is discharged or cancelled, or expires.

The Company's financial liabilities consist of amounts payable and accrued liabilities, dividends payable, debt and derivative financial instruments.

Interest expense is accounted for using the effective interest rate method.

The effective interest rate method is a method of calculating the amortized cost of a financial asset or financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts throughout the expected life of the financial instrument, or a shorter period where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derivative financial instruments

Derivative financial instruments, which are comprised of the conversion and redemption options related to the convertible debentures, are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at fair value with the resulting gain or loss reflected in net income. Derivatives are valued using model calibration. Inputs to the valuation model are determined from observable market data wherever possible, including prices available from exchanges, over-the-counter markets 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.

Compound financial instruments

Compound financial instruments issued by the Company comprise convertible unsecured subordinated debentures that can be converted to share capital at the option of the holder. The Company may settle the conversion right in cash in lieu of common shares unless the holder has explicitly indicated that they do not wish to receive cash. The cash settlement amount depends on the weighted average trading price of the common shares of the Company. This settlement option requires the Company to record the conversion option as a derivative financial instrument measured at fair value at each reporting period, with changes in fair value recorded in net income.

In addition, the debentures contain a redemption option, subject to several conditions, which allows the Company to redeem the debentures, in whole or in part, and the Company may settle the redemption option either in cash at par plus accrued and unpaid interest or in common shares, with the number of common shares to be issued depending on the weighted average trading price of the common shares of the Company. The redemption option is recorded as a derivative financial instrument measured at fair value at each reporting period, with changes in fair value recorded in net income.

The host liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The conversion and redemption options are considered to be interrelated and therefore are treated as a single compound embedded derivative which is recognized at fair value.

Any directly attributable transaction costs are allocated entirely to the host liability component.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported on the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. As of December 31, 2018, the Company does not have any assets or liabilities that are subject to an offsetting agreement.

Leases

At the lease commencement date, a right-of-use asset and lease liability are recognized on the balance sheet for all leases, with the exception of short-term and low-value leases.

Right-of-use assets are initially measured at the amount of the lease liability plus any initial direct costs and subsequently accounted for at cost less accumulated depreciation and impairment.

Lease liabilities are initially measured at the present value of future lease payments, discounted at the rate implicit in the lease if that rate can be readily determined; or if not, at the Company's incremental borrowing rate for a similar term and with similar security.

Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the consolidated statements of comprehensive income using the effective interest method.

Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown as a deduction, net of tax, from the proceeds.

Where the Company purchases its equity share capital to settle restricted share awards or for cancellation, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the Company's equity holders.

Earnings per share

Basic

Basic earnings per share is determined using the weighted average number of shares outstanding including vested deferred share units, taking into account on a retrospective basis any increases or decreases caused by share splits or reverse share splits occurring after the reporting period, but prior to the financial statements being authorized for issue.

Diluted

The Company considers the effects of stock compensation and convertible debentures in calculating diluted earnings per share. Diluted earnings per share is calculated by adjusting net income attributable to shareholders of the Company and the weighted average number of shares outstanding based on the assumption of the conversion of all potentially dilutive shares on a weighted average basis from the beginning of the year or, if later, the date the potential share compensation or convertible debentures were issued to the balance sheet date.

Dividends

Dividends on common shares are recognized in the consolidated financial statements in the year in which the dividends are approved by Tricon's Board of Directors.

Current and deferred income taxes

Income tax expense includes current and deferred income taxes. Income tax expense is recognized in the statement of comprehensive income, except to the extent that it relates to items recognized directly in equity, in which case the tax is also recognized directly in equity.

Current income taxes are the expected taxes payable on the taxable income for the year, using income tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to income taxes payable in respect of previous years. The Company uses the liability method to recognize deferred income taxes on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. Deferred income tax assets are only recorded if it is probable that they will be realized. Enacted or substantively enacted rates in effect at the consolidated balance sheet date that are expected to apply when the deferred income tax asset is realized or the deferred tax liability is settled are used to calculate deferred income taxes.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Investment income

Investment income includes gains and losses arising on the remeasurement of investments at FVTPL, including foreign exchange gains and losses.

Compensation arrangements

Stock option plan

The Company accounts for its stock option plan by calculating the fair value of the options as of the grant date using a Black-Scholes option pricing model and observable market inputs. This fair value is recognized as compensation cost using the graded vesting method over the vesting period of the options.

Annual Incentive Plan ("AIP")

The Board of Directors approved a new Annual Incentive Plan ("AIP") in March 2018.

Aggregate AIP awards are calculated 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. Equity-based AIP awards are granted in a combination of restricted shares, performance share units ("PSUs"), deferred share units ("DSUs") and stock options, which vest in or over a one- or three-year period, or another period as determined by the Board, pursuant to the Company's Restricted Share Plan, Performance Share Unit Plan ("PSUP"), Deferred Share Unit Plan ("DSUP") and Stock Option Plan, respectively.

Long-term incentive plan ("LTIP")

LTIP expense is generated from two sources: (i) 50% of the Company's share of performance fees or carried interest from Investment Vehicles, paid in cash when received; and (ii) 15% of THP1 US investment income, payable in DSUs which vest over a five-year period. Amounts under the LTIP are allocated among employees pursuant to the LTIP.

For the LTIP generated from the Company's share of performance fees or carried interest from Investment Vehicles, the Company estimates the LTIP liability by determining the performance fees at each reporting date based on the estimated fair value of the underlying investments. Changes in the LTIP liability are recognized in the statement of comprehensive income.

For the LTIP generated from the Company's investment income in THP1 US, as the deferred shares vest equally on the anniversary dates following the grant date over a five-year period, the compensation expenses are recognized over a six-year period on a graded vesting basis.

Directors' fees

In 2018, one-half of each independent Director's base annual retainer was paid in DSUs which vest on the third anniversary of the grant date. In addition, an independent Director may elect each year to receive a portion of the balance of his or her fees (including his or her base annual retainer, any additional retainer, and meeting attendance fees) in DSUs, which DSUs vest immediately upon grant. Any remaining balance of such fees not payable in DSUs is paid in cash. The DSUs granted to Directors are governed by the DSUP.

Discontinued operations

A discontinued operation is a component of the Company that either has been disposed of, or is classified as held for sale, and: (i) represents a separate major line of business or geographical area of operations; (ii) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations; or (iii) is a subsidiary acquired exclusively with a view to resale.

A non-current asset (or disposal group) is classified as held or sale if it is available for immediate sale in its present condition subject only to usual and customary terms and the sale is highly probable. Non-current assets (or disposal groups) held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

The Company's investment in Tricon Lifestyle Communities was classified as held for sale in early 2018 and disposed of on June 29, 2018. The results of discontinued operations, net of tax, and net cash flows from discontinued operations are presented separately on the face of the consolidated statements of comprehensive income and consolidated statements of cash flows, respectively. The comparative periods have been re-presented to conform to the current period presentation.

Reportable segments

Tricon is comprised of four reportable segments: Private Funds and Advisory ("PF&A"); and Principal Investing in Tricon American Homes, Tricon Lifestyle Rentals and Tricon Housing Partners. The reportable segments are business units offering different products and services, and are managed separately due to their distinct investment natures. These four reportable segments have been determined by the Company's chief operating decision makers (Note 17).

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. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgments applied that have a significant risk of causing material adjustments to the carrying amounts of assets and liabilities within the next financial year are outlined below. Actual results could differ from these estimates and the differences may be material.

Income taxes

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. Significant estimates are required in determining the Company's consolidated income tax provision. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current tax and deferred tax provisions. Furthermore, deferred income tax balances are recorded using enacted or substantively enacted future income tax rates. Changes in enacted income tax rates are not within the control of management. However, any such changes in income tax rates may result in actual income tax amounts that may differ significantly from estimates recorded in deferred tax balances.

Judgment is also required in determining whether deferred income tax assets should be recognized on the consolidated balance sheets. Deferred income tax assets are recognized to the extent that the Company believes it is probable that the assets can be recovered when future taxable profit will be available against which the temporary differences can be utilized. The Company assesses deferred income tax liabilities on its investments in TAH and TLR based on a reduction of its investment as opposed to a sale of underlying assets held by the investment.

Fair value and impairment of financial instruments

Certain financial instruments are recorded in the Company's consolidated balance sheets at values that are representative of or approximate fair value.

The fair values of the Company's investments in Tricon American Homes, Tricon Lifestyle Rentals and Tricon Housing Partners are determined using the valuation methodologies described in Note 5. By their nature, these valuation techniques require the use of assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes in the underlying assumptions could materially impact the determination of the fair value of a financial instrument. Imprecision in determining fair value using valuation techniques may affect the investment income recognized in a particular period.

Fair value of incentive plans

Management is required to make certain assumptions and to estimate future financial performance to estimate the fair value of incentive plans at each consolidated balance sheet date. Significant estimates and assumptions relating to such incentive plans are disclosed in Notes 2 and 16. The LTIP requires management to estimate future non-IFRS earnings measures, namely future performance fees relative to each fund or separate account. Future non-IFRS measures are estimated based on current projections, and are updated at least annually, taking into account actual performance since inception.

Determination of investment entity

In accordance with IFRS 10, an investment entity is an entity that obtains funds from one or more investors for the purpose of providing them with investment management services, commits to its investors that its business purpose is to invest funds solely for returns from capital appreciation, investment income (including rental income), or both, and measures and evaluates the performance of substantially all of its investments on a fair value basis. In addition, IFRS 10 clarifies that an investment entity may earn fee income from the provision of investment-related services to external parties. After considering all relevant facts and circumstances to determine whether or not the Company should still be considered as an investment entity, management believes that there has not been any event triggering a change to the status during the year.

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

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 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:

	December 31, 2018			December 31, 2017		
(in thousands of U.S. dollars)	Internal debt instruments	Equity	Total investment	Internal debt instruments	Equity	Total investment
Investments – TAH						
TAH wholly-owned	$ –	$ 1,099,086	$ 1,099,086	$ –	$ 884,115	$ 884,115
TAH JV-1	–	46,135	46,135	–	–	–
	–	1,145,221	1,145,221	–	884,115	884,115
Investments – TLR	–	129,838	129,838	–	89,225	89,225
Investments – THP				–		
U.S. commingled funds	–	112,332	112,332	–	119,714	119,714
Canadian commingled funds	–	6,599	6,599	–	9,651	9,651
Separate accounts and side-cars	18,874	169,759	188,633	21,903	155,369	177,272
	18,874	288,690	307,564	21,903	284,734	306,637
Investments held for sale – TLC	–	–	–	–	62,074	62,074
Total	**$ 18,874**	**$ 1,563,749**	**$ 1,582,623**	**$ 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 facilities 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.

In 2016, the Company entered into a financial guarantee contract in the amount of $25,500 (C$34,800) with a Canadian chartered bank for the provision of a financial guarantee in respect of a construction loan held by 592 Sherbourne GP Inc. On October 23, 2018, the maturity of the construction loan was extended from January 7, 2019 to January 7, 2020 with a one-year extension option remaining. This guarantee contract is initially measured at fair value and subsequently recorded as a contingent liability until such time as it becomes probable that the guarantor will be required to make payments under the guarantee provision.

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	Investment at fair value[2]
As at December 31, 2018[3]								
THP1 US[4,5]	USD	$ 226,775	$ 271,222	$ 9,429	$ –	$ 280,574	$ 280,574	$ 86,067
THP2 US	USD	25,000	22,012	2,988	–	28	28	26,265
THP US SP1 LP	USD	6,330	5,369	961	899	1,592	2,491	6,232
THP US SP2 LP	USD	5,760	5,233	527	562	205	767	6,542
Cross Creek Ranch	USD	12,960	12,484	476	6,522	18,345	24,867	8,298
Fulshear Farms	USD	5,000	3,329	1,671	650	–	650	3,607
Grand Central Park	USD	9,785	8,526	1,259	4,251	1,598	5,849	8,471
Trilogy at Verde River	USD	12,600	10,312	2,288	4,422	1,323	5,745	7,254
Viridian	USD	25,400	26,860	1,047	4,448	10,150	14,598	26,811
Trinity Falls	USD	91,750	85,449	6,301	1,775	–	1,775	111,342
Side-cars	USD	23,613	20,878	2,735	7,151	1,848	8,999	10,076
Total USD investments		**$ 444,973**	**$ 471,674**	**$ 29,682**	**$ 30,680**	**$ 315,663**	**$ 346,343**	**$ 300,965**
THP3 Canada	CAD	20,000	12,462	7,538	–	8,977	8,977	6,599
Total CAD investments		**$ 20,000**	**$ 12,462**	**$ 7,538**	**$ –**	**$ 8,977**	**$ 8,977**	**$ 6,599**
Investments – THP								**$ 307,564**
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 December 31, 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 were reduced by $9,529 of withholding tax.

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

The controlled subsidiaries which are not consolidated by the Company include:

Name	Type	Principal place of business	Country of incorporation	Ownership interest %	Voting rights %[1]
Tricon SF Home Rental ULC	Holding Company	USA	Canada	100%	100%
Tricon American Homes LLC	Holding Company	USA	USA	100%	100%
SFR JV-1 Holdings LP	Limited Partnership	USA	USA	51%	51%
SFR JV-1 LP	Limited Partnership	USA	USA	33%	33%
Tricon Housing Partners US LP	Limited Partnership	USA	USA	68%	68%
Tricon Housing Partners US II B LP	Limited Partnership	USA	USA	16%	16%
Tricon Housing Partners Canada III Co-Investment Ltd.	Holding Company	Canada	Canada	100%	100%
Tricon Housing Partners Canada III LP	Limited Partnership	Canada	Canada	10%	10%
Tricon Housing Partners US Syndicated Pool I LP	Limited Partnership	USA	USA	20%	50%
Tricon Housing Partners US Syndicated Pool II LP	Limited Partnership	USA	USA	20%	50%
Tricon USA Lender Inc.	Holding Company	USA	Canada	100%	100%
Tricon Lender II Inc.	Holding Company	USA	Canada	100%	100%
CCR Texas Equity LP	Limited Partnership	USA	USA	10%	50%
CCR Texas Holdings LP	Limited Partnership	USA	USA	9%	50%
Vistancia West Equity LP	Limited Partnership	USA	USA	7%	50%
Vistancia West Holdings LP	Limited Partnership	USA	USA	6%	50%
FF Texas Equity LP	Limited Partnership	USA	USA	10%	50%
FF Texas Holdings LP	Limited Partnership	USA	USA	10%	50%
Conroe CS Texas Equity LP	Limited Partnership	USA	USA	10%	50%
Conroe CS Texas Holdings LP	Limited Partnership	USA	USA	10%	50%
Tegavah Equity LP	Limited Partnership	USA	USA	10%	50%
Tegavah Holdings LP	Limited Partnership	USA	USA	9%	50%
Lake Norman Equity LP	Limited Partnership	USA	USA	7%	50%
Lake Norman Holdings LP	Limited Partnership	USA	USA	7%	50%
Arantine Hills Equity LP	Limited Partnership	USA	USA	7%	50%
Arantine Hills Holdings LP	Limited Partnership	USA	USA	7%	50%
Viridian Equity LP	Limited Partnership	USA	USA	18%	50%
Viridian Holdings LP	Limited Partnership	USA	USA	17%	50%
Tricon Manufactured Housing Communities ULC	Holding Company	USA	Canada	100%	100%
TAH REIT LLC	Holding Company	USA	USA	100%	100%
Tricon/COB MHC LP	Limited Partnership	USA	USA	98%	67%
Tricon Luxury Residences Co-Investment Inc.	Holding Company	Canada	Canada	100%	100%
592 Sherbourne LP	Limited Partnership	Canada	Canada	15%	50%
57 Spadina LP	Limited Partnership	Canada	Canada	30%	50%
6–8 Gloucester LP	Limited Partnership	Canada	Canada	47%	50%
Tricon SLR US Multifamily LLC	Holding Company	USA	USA	100%	100%
Tricon SLR US Multifamily I LP	Limited Partnership	USA	USA	100%	50%
SLR-TCN McKenzie Project, LP	Limited Partnership	USA	USA	90%	50%
SLR-TCN Canals at Grand Park II Project, LP	Limited Partnership	USA	USA	90%	50%

(1) In respect of major decisions only.

5. 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:

	December 31, 2018			December 31, 2017		
(in thousands of U.S. dollars)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Financial assets						
Investments – TAH						
TAH wholly-owned	$ –	$ –	$ 1,099,086	$ –	$ –	$ 884,115
TAH JV-1	–	–	46,135	–	–	–
	–	–	1,145,221	–	–	884,115
Investments – TLR	–	–	129,838	–	–	89,225
Investments – THP						
U.S. commingled funds	–	–	112,332	–	–	119,714
Canadian commingled funds	–	–	6,599	–	–	9,651
Separate accounts and side-cars	–	–	188,633	–	–	177,272
	–	–	307,564	–	–	306,637
Investments held for sale – TLC	–	–	–	–	–	62,074
	$ –	**$ –**	**$ 1,582,623**	**$ –**	**$ –**	**$ 1,342,051**
Financial liabilities						
Derivative financial instruments (Note 8)	$ –	$ 3,936	$ –	$ –	$ 37,494	$ –

There have been no transfers between levels for the years ended December 31, 2018 and December 31, 2017.

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 also invests in a joint venture partnership ("TAH JV-1") as a limited partner. 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, including the investment in TAH JV-1, 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 to six months after purchase. As a result, homes acquired in the last two quarters are recorded at their purchase price plus the cost of capital expenditures, if applicable. Homes acquired prior to October 1, 2018 were valued at November 30, 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 December 31, 2018.

As of December 31, 2018, TAH managed 17,442 homes, of which 15,439 were wholly-owned rental properties. During the year ended December 31, 2018, the Broker Price Opinion ("BPO") valuation methodology was used to determine the fair value of 3,585 of TAH's managed rental properties. The remainder of the managed 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. The HPI increase during the year was 6.1% compared to a 5.1% increase in 2017.

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. It was determined that the carrying value of variable term loans approximates fair value, considering their variable interest terms. The fair values of the fixed term loans were estimated by modelling the contractual cash flows required under the loans and discounting them back to their present values using market interest rate data and bid prices at the end of the period.

Deferred income taxes are based on the enacted tax rates for future years. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary difference can be utilized at TAH. Working capital approximates fair value.

Debt

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

(in thousands of U.S. dollars)	Effective interest rates	Maturity dates	Debt balance[4,5] December 31, 2018	December 31, 2017
Silver Bay acquisition warehouse facility[1]	LIBOR+3.26%	November 2018	$ –	$ 155,828
Warehouse credit facility[1]	LIBOR+2.65%	November 2019	100,546	184,167
TAH JV-1 warehouse credit facility[2]	LIBOR+2.50%	October 2020	95,832	–
Securitization loan, TAH 2016-1	3.59%	November 2021	361,440	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	364,574	365,000
Securitization loan, TAH 2018-1[3]	3.86%	May 2025	313,865	–
Total debt at operating entities			**$ 2,046,433**	**$ 1,877,772**
TAH JV-1 subscription loan[4]	LIBOR+1.75%	August 2021	119,500	–
Total debt at TAH JV-1 partner-level entities			**$ 119,500**	**$ –**

(1) On November 20, 2018, TAH amended and restated its warehouse credit facility to revise the size of the facility to $150,000 and concurrently fully repaid the outstanding balance of the Silver Bay acquisition warehouse facility of $22,602. The amended and restated credit facility has two one-year extension options.

(2) On October 25, 2018, TAH JV-1 entered into a new warehouse credit facility agreement. The facility has a commitment value of $300,000 and a one-year extension option. Tricon's proportionate share of the TAH JV-1 warehouse credit facility balance at December 31, 2018 is $32,263 (2017 – nil).

(3) TAH closed the TAH 2018-1 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) Tricon's proportionate share of the TAH JV-1 subscription loan balance at December 31, 2018 is $40,232 (2017 – nil).

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

Sensitivity

As of December 31, 2018, TAH, and the Company where applicable as its sponsor, were in compliance with the financial covenants and other undertakings outlined in the loan agreements. The one-month LIBOR during the year ended December 31, 2018 ranged from 1.56% to 2.35%. If interest rates had been 50 basis points lower, with all other variables held constant, investment income in TAH for the year ended December 31, 2018 would have been $2,949 (2017 – $3,889) higher. If interest rates had been 50 basis points higher, with all other variables held constant, investment income in TAH for the year ended December 31, 2018 would have been $2,805 (2017 – $3,889) lower.

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

If the prices of single-family rental properties managed by TAH were to increase or decrease by 1% (December 31, 2017 – 1%), the impact on investments in TAH fair value at December 31, 2018 would be $30,987 and ($30,987), respectively (December 31, 2017 – $26,613 and ($26,613)).

The weighted average of the quarterly HPI change was 1.4%. If the change in the quarterly HPI increased or decreased by 0.5%, the impact on investments in TAH fair value at December 31, 2018 would be $13,542 and ($13,542), respectively (December 31, 2017 – $8,206 and ($8,206)).

Investments – Tricon Lifestyle Rentals

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

Property values typically do not change materially in the short term, and development expenditures generally do not significantly impact values in the first twelve months after purchase. As a result, properties acquired in the year are recorded at their purchase price plus the cost of development expenditures. Properties acquired prior to January 1, 2018 were valued at December 31, 2018.

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

			December 31, 2018		December 31, 2017		
Description	Valuation technique(s)	Significant unobservable input	Range of inputs	Weighted average of inputs	Range of inputs	Weighted average of inputs	Other inputs and key information
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]	6.0% 1 – 2 years	6.0% 1.5 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, stabilized net operating income.
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% 1.7 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 31 for certain TLR Canada investments. As at December 31, 2018, the external valuations for Tricon's interest in two TLR Canada investments totaled $55,957. 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 inputs within the appraised value are stabilized revenues and expenses, discount rates and the value of land per square foot.

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 $830, and a decrease of 1% in the discount rate results in an increase in fair value of $849 (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 $860, and a decrease of 5% in the appraised land value per square foot would result in a decrease in fair value of $860 (December 31, 2017 – $491 and ($491), respectively).

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

Investments – Tricon Housing Partners

Tricon establishes wholly-owned subsidiaries that invest in limited partnerships of commingled funds, separate accounts and side-cars. 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.

For investments in commingled funds the fair value of each limited partnership's net assets is 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 development project and working capital held by the limited partnerships. The fair values of the land development projects are 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.

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

			December 31, 2018		December 31, 2017		
Description	Valuation technique(s)	Significant unobservable input	Range of inputs	Weighted average of inputs	Range of inputs	Weighted average of inputs	Other inputs and key information
Debt investments	Net asset value, determined using discounted cash flow	a) Discount rate[1] b) Future cash flow[2]	10.0% – 12.0% 2 – 6 years	11.3% 5.1 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 – 6 years	14.2% 3.2 years	12.5% – 20.0% 1 – 4 years	14.7% 2.8 years	
THP2 US			12.5% – 20.0% 1 – 10 years	15.0% 1.7 years	12.5% – 20.0% 1 – 10 years	15% 1.3 years	
THP3 Canada			8.0% – 18.0% 1 – 8 years	10.1% 1.2 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 – 17 years	N/A[3] 13.6 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 excluding THP US SP1 LP and THP US SP2 LP. As at December 31, 2018, the external valuations for Tricon's interest in eight separate account equity and side-car investments totaled $45,645. 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.

Sensitivity

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

		December 31, 2018		December 31, 2017	
(in thousands of dollars)	Currency	1% increase	1% decrease	1% increase	1% decrease
U.S. commingled funds	USD	$ (858)	$ 813	$ (1,067)	$ 1,094
Canadian commingled funds	CAD	(73)	75	(165)	169
Separate accounts and side-cars	USD	(2,925)	2,991	(3,002)	3,186

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 has received distributions of $80,944 to date; the remaining proceeds of $4,242 are included in amounts receivable as at December 31, 2018.

(in thousands of U.S. dollars)	December 31, 2018
Sales proceeds from disposition of investment properties	$ 172,500
Settlement of mortgage balances	(77,621)
Transaction costs on disposition	(4,882)
Other net liabilities	(102)
Distributions to non-controlling interest	(6,347)
Proceeds from disposition 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 year ended December 31, 2018, Tricon recognized investment income from discontinued operations of $21,170 after deducting transaction costs and proceeds to TLC's operating partner.

Investments held for sale – TLC

(in thousands of U.S. dollars)	December 31, 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 years ended December 31, 2018 and December 31, 2017:

TAH

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Opening balance	$ 884,115	$ 479,938
Advances made to investments	170,174	354,110
Distributions received from investments	(128,000)	(63,000)
Investment income	218,932	113,067
Ending balance	**$ 1,145,221**	**$ 884,115**
Unrealized fair value gain included in net income on investments still held	218,932	113,067

TLR

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Opening balance	$ 89,225	$ 62,410
Advances made to investments	25,974	14,424
Distributions received from investments	(767)	–
Investment income	15,406	12,391
Ending balance	**$ 129,838**	**$ 89,225**
Unrealized fair value gain included in net income on investments still held	15,406	12,391

THP

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Opening balance	$ 306,637	$ 301,787
Advances made to investments	8,938	21,496
Distributions received from investments	(19,460)	(34,855)
Investment income	11,449	18,209
Ending balance	**$ 307,564**	**$ 306,637**
Unrealized fair value gain included in net income on investments still held	11,449	18,209

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 8. 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:

	December 31, 2018		December 31, 2017	
	2020 convertible debentures[5]	2022 convertible debentures	2020 convertible debentures[5]	2022 convertible debentures
Risk-free rate[1]	–	2.60%	2.09%	2.23%
Stock price[2]	–	C$9.69	C$11.55	C$11.55
Implied volatility[3]	–	22.35%	25.01%	24.73%
Dividend yield[4]	–	2.89%	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.
(5) The 2020 debentures were redeemed in full as at October 9, 2018.

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.

6. DEBT

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Revolving term credit facility	$ 209,250	$ 161,500
Convertible debentures	157,112	214,147
Mortgage	7,150	7,957
Lease obligation (Note 12)	1,204	–
Total debt	**$ 374,716**	**$ 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 year ended December 31, 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 year ended December 31, 2018 amounted to $12,677 (2017 – $6,580), which includes standby charges of $1,317 (2017 – $1,730). The weighted average interest rate during the year ended December 31, 2018 was 5.48% (2017 – 4.47%).

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

2022 convertible debentures

On March 17, 2017, the Company completed the offering, on a bought deal basis, of $172,500 aggregate principal amount of 5.75% extendible convertible unsecured debentures (the "2022 convertible debentures"), including $22,500 aggregate principal amount of 2022 convertible debentures issued pursuant to the exercise of underwriters' over-allotment options. The net offering proceeds to the Company were $164,554 after transaction costs of $7,946.

Upon the closing of the acquisition of Silver Bay on May 9, 2017, the 2022 convertible debentures became convertible to common shares of the Company in accordance with their terms, and their maturity date was extended to March 31, 2022.

The 2022 convertible debentures bear interest at 5.75% per annum, which is payable semi-annually in arrears in March and September, and are convertible into common shares of the Company at a conversion rate of 95.6023 common shares per $1,000 principal amount of 2022 convertible debentures (equivalent to a conversion price of approximately $10.46 per common share (equivalent to C$14.27 as of December 31, 2018)).

The Company may settle the conversion right in cash in lieu of common shares unless the holder has explicitly indicated that it does not wish to receive cash.

The 2022 convertible debentures may not be redeemed by the Company prior to March 31, 2020, except in the event of the satisfaction of certain conditions after a change of control has occurred. On or after March 31, 2020 and prior to March 31, 2021, the 2022 convertible debentures may be redeemed by the Company at a price equal to the principal amount thereof plus accrued and unpaid interest, provided that the Current Market Price (as defined in the trust indenture governing the 2022 convertible debentures) of the Company's common shares on the fifth trading day immediately preceding the date on which notice of redemption is given is not less than 125% of the conversion price. On or after March 31, 2021 and prior to their final maturity date, the 2022 convertible debentures may be redeemed by the Company at a price equal to the principal amount thereof plus accrued and unpaid interest. The Company has an option to settle the redemption right, where applicable, by delivering the number of common shares determined by dividing the principal amount of the convertible debentures by 95% of the Current Market Price of the Company's common shares on the fifth trading day immediately preceding the date fixed for redemption or the maturity date. As of December 31, 2018, there have been no conversions of the 2022 convertible debentures.

2020 convertible debentures

On August 30, 2018, the Company gave notice to debenture holders of its intention to redeem in full all of the outstanding balance of 5.60% convertible unsecured subordinated debentures due March 31, 2020 (the "2020 convertible debentures") effective October 9, 2018, and elected to satisfy the redemption proceeds by the issuance of common shares of the Company. In total, the Company issued 8,695,539 common shares in connection with the conversion or redemption of C$85,693 aggregate principal amount of 2020 convertible debentures during 2018. Cash was also paid in lieu of any fractional shares that would otherwise have been issued on conversion or redemption.

The following table summarizes the conversion and redemption activities during the year.

(in thousands of Canadian dollars)	Number of shares issued	Principal amount
Conversions by holders from January 1, 2018 to October 8, 2018	8,097,134	$ 79,352
Redemption by the Company on October 9, 2018	598,405	6,341
Total principal amount converted and redeemed into common shares of the Company	**8,695,539**	**$ 85,693**

At the time of the conversions, the common shares issued by the Company were recorded at fair value based on their market price rather than the conversion price. The difference between the fair value of the common shares and the fair value of the convertible debentures settled was recorded as a reduction of the fair value of the embedded derivative related to the debentures. For the year ended December 31, 2018, common shares valued at $72,125 (C$93,301) were issued, corresponding to $66,247 (C$85,693) principal amount of 2020 convertible debentures, and accordingly, the difference of $5,878 (C$7,608) was deducted from the fair value of the embedded derivative.

The host liability components of the outstanding convertible debentures recognized on the consolidated balance sheets as of December 31, 2018 were calculated as follows:

(in thousands of U.S. dollars)	2020 convertible debentures	2022 convertible debentures	Total
December 31, 2018			
Principal amount outstanding	$ –	$ 172,500	$ 172,500
Less: Transaction costs (net of amortization)	–	(5,454)	(5,454)
Liability component on initial recognition	–	167,046	167,046
Debentures discount (net of amortization)	–	(9,934)	(9,934)
Convertible debentures	**$ –**	**$ 157,112**	**$ 157,112**

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

(1) 2020 convertible debentures principal amount outstanding of C$85,693 at December 31, 2017 was translated to U.S. dollars at the period-end exchange rate.

At the beginning of the year, the 2020 convertible debentures had an unamortized balance of $6,051 in debentures discount and $1,304 in debentures issuance costs. During the year, the Company recognized debentures discount amortization of $1,635 and debentures issuance costs amortization of $371. On August 30, 2018, the date on which the Company gave notice of redemption of the 2020 convertible debentures, the remaining unamortized balance of debentures discount of $4,416 and debentures issuance costs of $933 were recognized on the Company's income statement as a $5,349 loss on debt extinguishment. As at December 31, 2018, there was no remaining unamortized balance of debentures discount and issuance costs for the 2020 convertible debentures.

The fair value of the host liability component of the 2020 convertible debentures was nil as of December 31, 2018 and $68,362 (C$85,764) as of December 31, 2017. The fair value of the host liability component of the 2022 convertible debentures was $168,994 as of December 31, 2018 and $169,310 as of December 31, 2017. The difference between the amortized cost and implied fair value is a result of the difference between the effective interest rate and the market interest rate for debt with similar terms.

Mortgage

The Company obtained a mortgage loan to purchase a commercial condominium, which 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 year ended December 31, 2018 was $331 (2017 – $36). As at December 31, 2018, the outstanding principal amount was $7,150 (C$9,755). The Company was in compliance with the covenants and other undertakings outlined in the loan 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	December 31, 2018	December 31, 2017
Fixed rate					
2020 convertible debentures	5.60%	6.46%	2018	$ –	$ 60,951
2022 convertible debentures	5.75%	6.85%	2022	157,112	153,196
Mortgage	4.38%	4.43%	2024	7,150	7,957
Lease obligation	N/A	5.60%	2026	1,204	–
Total fixed-rate debt	**5.65%**	**6.74%**		**$ 165,466**	**$ 222,104**
Variable rate					
Revolving term credit facility	LIBOR+3.25%	5.48%	2020	209,250	161,500
Total debt				**$ 374,716**	**$ 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
2019	$ –	$ –	$ 174	$ 122	$ 296
2020	209,250	–	182	134	209,566
2021	–	–	190	148	338
2022	–	172,500	198	162	172,860
2023	–	–	207	178	385
2024 and thereafter	–	–	6,199	460	6,659
	209,250	172,500	7,150	1,204	390,104
Transaction costs (net of amortization)					(5,454)
Debentures discount (net of amortization)					(9,934)
Total debt					**$ 374,716**

Interest expense

The table below provides a summary of the components of interest expense.

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Credit facility interest	$ 12,677	$ 6,580
Debentures interest	14,522	13,156
Debentures discount amortization	4,104	3,949
Interest on lease obligation	52	–
Mortgage interest	331	36
Total interest expense	**$ 31,686**	**$ 23,721**

7. 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)	December 31, 2018	December 31, 2017
Trade payables and accrued liabilities	$ 1,898	$ 6,187
AIP liability (Note 16)	1,227	420
Income taxes payable	59	256
Interest payable	3,245	4,410
Total amounts payable and accrued liabilities	**$ 6,429**	**$ 11,273**

8. DERIVATIVE FINANCIAL INSTRUMENTS

The conversion and redemption features of the convertible debentures are combined pursuant to IFRS 9, 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 and U.S. 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. The value attributed to the derivative financial instruments is shown below:

(in thousands of U.S. dollars)	2020 convertible debentures	2022 convertible debentures	Total
December 31, 2018			
Derivative financial instruments – beginning of year	$ 13,605	$ 23,889	$ 37,494
Derivative financial instruments converted into common shares of the Company	(5,878)	–	(5,878)
Fair value changes (based on market price)	(7,727)	(19,953)	(27,680)
Derivative financial instruments – end of year	**$ –**	**$ 3,936**	**$ 3,936**

(in thousands of U.S. dollars)	2020 convertible debentures	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)[1]	13,577	9,701	23,278
Derivative financial instruments – end of year	**$ 13,605**	**$ 23,889**	**$ 37,494**

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

For the year ended December 31, 2018, the fair value of the embedded derivative payable on the 2020 convertible debentures decreased by $7,727, excluding $5,878 in fair value of the embedded derivative reclassified to common shares during the year. The fair value of the embedded derivative payable on the 2022 convertible debentures decreased by $19,953. The significant change in the value of the conversion option, which is reflected as income to the Company, was mainly because of the decrease in the Company's share price on the TSX as well as an unfavourable exchange rate that was applied to the Company's share price.

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 year ended December 31, 2018; as a result, the shares issuable on conversion were included in the weighted average diluted shares outstanding for the year ended December 31, 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.

9. INCOME TAXES

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Income tax expense – current	$ 639	$ 4,889
Income tax expense – deferred	22,118	7,440
Income tax expense from continuing operations	**$ 22,757**	**$ 12,329**
Income tax (recovery) expense from discontinued operations	**(1,957)**	**976**
Income tax expense	**$ 20,800**	**$ 13,305**

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

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Income before income taxes from continuing operations	$ 215,985	$ 75,272
Combined statutory federal and provincial income tax rate	26.50%	26.50%
Expected income tax expense	57,236	19,947
Non-taxable gains on investments	(30,086)	(15,857)
Non-taxable (gains) losses on derivative financial instruments	(7,335)	6,168
Tax rate changes[1]	–	(1,452)
Foreign tax rate differential	(350)	628
Other, including permanent differences[2]	3,292	2,895
Income tax expense from continuing operations	**$ 22,757**	**$ 12,329**

(1) On December 22, 2017, The United States House of Representatives and the Senate passed the "Tax Cuts and Jobs Act" into law. The overall impact of the new tax rules is a one-time net tax benefit of $1,452. U.S. tax reform is not expected to have a material impact on Tricon's consolidated effective tax rate.

(2) Other permanent differences are comprised of non-deductible share compensation and non-deductible debentures discount amortization.

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

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Deferred income tax assets		
Deferred income tax assets to be recovered after more than 12 months	$ 34,109	$ 23,247
Deferred income tax assets to be recovered within 12 months	2,026	690
Total deferred income tax assets	**$ 36,135**	**$ 23,937**
Deferred income tax liabilities		
Deferred income tax liabilities reversing after more than 12 months	$ 80,189	$ 47,728
Deferred income tax liabilities reversing within 12 months	1,037	199
Total deferred income tax liabilities	**$ 81,226**	**$ 47,927**

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

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Change in net deferred income tax liabilities		
Net deferred income tax liabilities – beginning of year	$ 23,990	$ 18,084
Charge to the statement of comprehensive income	20,161	8,416
Credit directly to equity	–	(2,054)
Other	940	(456)
Net deferred income tax liabilities – end of year	**$ 45,091**	**$ 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)	1,743	(895)	10,462	888	12,198
At December 31, 2018	**$ 5,944**	**$ 1,930**	**$ 26,379**	**$ 1,882**	**$ 36,135**

(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)	32,650	(308)	957	–	33,299
At December 31, 2018	**$ 79,747**	**$ 182**	**$ 1,297**	**$ –**	**$ 81,226**

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

10. INTANGIBLE ASSETS

The intangible assets are as follows:

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Placement fees	$ 5,735	$ 1,415
Rights to performance fees	65	127
Customer relationship intangible	4,245	4,759
Contractual development fees	10,688	13,715
Total intangible assets	**$ 20,733**	**$ 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. Amortization expense for the year ended December 31, 2018 was $4,282 (2017 – $4,952).

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 4). 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.

(in thousands of U.S. dollars) For the year ended December 31, 2018	Opening	Additions	Amortization expense	Translation adjustment	Ending
Placement fees	$ 1,415	$ 5,000	$ (679)	$ (1)	$ 5,735
Rights to performance fees	127	–	(62)	–	65
Customer relationship intangible	4,759	–	(514)	–	4,245
Contractual development fees	13,715	–	(3,027)	–	10,688
Intangible assets	**$ 20,016**	**$ 5,000**	**$ (4,282)**	**$ (1)**	**$ 20,733**

(in thousands of U.S. dollars) For the year ended December 31, 2017	Opening	Additions	Amortization expense	Translation adjustment	Ending
Placement fees	$ 1,805	$ –	$ (391)	$ 1	$ 1,415
Rights to performance fees	189	–	(62)	–	127
Customer relationship intangible	5,273	–	(514)	–	4,759
Contractual development fees	17,700	–	(3,985)	–	13,715
Intangible assets	**$ 24,967**	**$ –**	**$ (4,952)**	**$ 1**	**$ 20,016**

There were no impairments to placement fees and rights to performance fees for the years ended December 31, 2018 and December 31, 2017.

11. OTHER ASSETS

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Building	$ 15,540	$ 13,295
Furniture, computer and office equipment	4,247	2,051
Right-of-use asset (Note 12)	1,140	–
Leasehold improvements	499	213
Goodwill	219	219
Total other assets	**$ 21,645**	**$ 15,778**

On November 22, 2017, the Company acquired a commercial condominium at 7 St. Thomas Street, Toronto for its own use.

(in thousands of U.S. dollars) For the year ended December 31, 2018	Opening	Additions	Depreciation expense	Translation adjustment	Ending
Building	$ 13,295	$ 3,805	$ (308)	$ (1,252)	$ 15,540
Furniture, computer and office equipment	2,051	2,754	(592)	34	4,247
Right-of-use asset	–	1,256	(116)	–	1,140
Leasehold improvements	213	528	(242)	–	499
Goodwill	219	–	–	–	219
Other assets	**$ 15,778**	**$ 8,343**	**$ (1,258)**	**$ (1,218)**	**$ 21,645**

(in thousands of U.S. dollars) For the year ended December 31, 2017	Opening	Additions	Depreciation expense	Translation adjustment	Ending
Building	$ –	$ 13,295	$ –	$ –	$ 13,295
Furniture, computer and office equipment	910	1,568	(362)	(65)	2,051
Leasehold improvements	247	56	(61)	(29)	213
Goodwill	219	–	–	–	219
Other assets	**$ 1,376**	**$ 14,919**	**$ (423)**	**$ (94)**	**$ 15,778**

Depreciation expense for the year ended December 31, 2018 was $1,258 (2017 – $423). In 2017, no depreciation was taken on the building as it was not available for use.

12. 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 $1,256 on April 1, 2018.

As at December 31, 2018, the carrying value of the Company's lease obligation was $1,204 (2017 – nil) and the carrying value of the right-of-use asset was $1,140. During the year ended December 31, 2018, the Company incurred interest expense of $52 (2017 – nil) related to the lease obligation and depreciation expense of $116 (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)	
2019	$ 186
2020	191
2021	197
2022	203
2023	209
2024 and thereafter	493
Minimum lease payments obligation	1,479
Imputed interest included in minimum lease payments	(275)
Lease obligation	**$ 1,204**

13. DIVIDENDS

(in thousands of dollars, except per share amounts)			Common shares	Dividend amount per share		Total dividend amount		Dividend reinvestment plan ("DRIP")	
Date of declaration	Record date	Payment date	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
August 8, 2018	September 30, 2018	October 15, 2018	138,744,258	0.070	0.054	9,712	7,446	3,043	2,332
November 6, 2018	December 31, 2018	January 15, 2019	143,246,968	0.070	0.051	10,027	7,350	1,273	960
						$ 38,457	**$ 29,157**	**$ 9,959**	**$ 7,672**
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 $7,350 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% (1% to 3% in the current year) 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 year ended December 31, 2018, 1,147,704 common shares were issued under the DRIP (2017 – 827,617) for a total amount of $9,138 (2017 – $6,608).

14. 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 December 31, 2018, there were 143,246,968 common shares issued by the Company (December 31, 2017 – 133,472,861), of which 143,011,130 were outstanding (December 31, 2017 – 133,472,861) and 235,838 shares were reserved to settle restricted share awards in accordance with the Company's Restricted Share Plan (Note 16).

	December 31, 2018			December 31, 2017		
	Number of shares issued	Share capital		Number of shares issued	Share capital	
(in thousands of dollars)	(repurchased)	USD	CAD	(repurchased)	USD	CAD
Beginning balance	133,472,861	$ 713,553	$ 885,310	112,754,769	$ 567,677	$ 685,589
Shares issued under DRIP[1]	1,147,704	9,138	11,720	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]	292,475	2,268	2,962	396,514	2,627	3,464
Debentures conversion[5]	8,695,539	72,125	93,301	3,877	28	38
Shares repurchased and reserved for restricted share awards[6]	(235,838)	(1,723)	(2,310)	–	–	–
Bought deal offering[7]	–	–	–	20,326,250	141,140	193,311
Ending balance	**143,011,130**	**$ 793,521**	**$ 988,711**	**133,472,861**	**$ 713,553**	**$ 885,310**

(1) In 2018, 1,147,704 common shares were issued under the DRIP at an average price of $7.96 (C$10.21) per share.

(2) In 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 first quarter of 2018, the Company repurchased 431,931 of its common shares for $3,733 (C$4,621), which reduced share capital and retained earnings by $2,310 and $1,423, respectively. Common shares that were purchased under the NCIB were cancelled by the Company.

(4) In 2018, 292,475 common shares were issued for deferred share units (DSUs) redeemed at an average price of $7.75 (C$10.13) per share.

(5) On August 30, 2018, the Company announced the redemption of its outstanding 2020 convertible debentures on October 9, 2018. As of December 31, 2018, $66,247 (C$85,693) principal amount of 2020 convertible debentures was converted along with $5,878 in fair value of the corresponding embedded derivative. As a result of the conversions, the Company issued 8,695,539 common shares at an average price of $8.29 (C$10.73) per share for a total share capital amount of $72,125 (C$93,301).

(6) On December 18, 2018, 235,838 shares were purchased at $7.31 (C$9.79) per share in order to settle restricted share awards granted to employees. The restricted shares will vest on the 12th anniversary of the grant date.

(7) On March 17, 2017, the Company completed the offering, on a bought deal basis, of 20,326,250 subscription receipts at a price of $7.41 (C$9.90) per subscription receipt for gross proceeds of $150,520 (C$201,230 translated to U.S. dollars using the March 17, 2017 exchange rate). Upon the closing of the acquisition of Silver Bay Realty Trust Corp. ("Silver Bay") on May 9, 2017, 20,326,250 common shares were delivered to holders of subscription receipts in satisfaction of their right to receive one common share per subscription receipt. On the settlement date, the gross proceeds were revalued to $146,837 (C$201,230 translated to U.S. dollars using the May 9, 2017 exchange rate). Net proceeds from the offering were $141,140 (C$193,311), which is net of $7,751 of equity issuance costs (including $964 of dividend equivalent payments), offset by $2,054 of deferred tax recoveries.

15. EARNINGS PER SHARE

Basic

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

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

For the years ended December 31	2018	2017
Net income from continuing operations	$ 193,228	$ 62,943
Non-controlling interest	404	96
Net income attributable to shareholders of Tricon from continuing operations	$ 192,824	$ 62,847
Net income attributable to shareholders of Tricon from discontinued operations	23,127	6,405
Net income attributable to shareholders of Tricon	$ 215,951	$ 69,252
Weighted average number of common shares outstanding	136,126,835	126,431,932
Adjustments for vested units	1,030,425	720,789
Weighted average number of common shares outstanding for basic earnings per share	137,157,260	127,152,721
Basic earnings per share		
Continuing operations	$ 1.40	$ 0.49
Discontinued operations	0.17	0.05
Basic earnings per share	**$ 1.57**	**$ 0.54**

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 four categories of potentially dilutive shares: stock options, restricted shares (Note 14), deferred share units (Note 16) and convertible debentures (Note 8). For the stock options, restricted shares and deferred share units, the number of dilutive shares is based on the number of shares that could have been acquired at fair value with the assumed proceeds, if any, from their exercise (determined using the average market price of the Company's shares for the year then ended). 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, restricted shares and deferred share units

For the year ended December 31, 2018, the Company's stock compensation plans resulted in 1,930,279 dilutive shares (2017 – 2,149,934), given that it would be advantageous to the holders to exercise their conversion rights, as the exercise prices of these potential shares are below the Company's average market share price of $8.16 (C$10.57) for the year.

Convertible debentures

For the year ended December 31, 2018, both of the Company's convertible debentures were dilutive, as debentures interest expense and loss on debt extinguishment, 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 year ended December 31, 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 years ended December 31	2018	2017
Net income attributable to shareholders of Tricon from continuing operations	$ 192,824	$ 62,847
Adjustment for convertible debentures interest expense – net of tax	14,623	–
Adjustment for loss on debt extinguishment – net of tax	5,102	–
Net change in fair value of financial instruments through profit or loss	(27,680)	–
Adjusted net income attributable to shareholders of Tricon from continuing operations	184,869	62,847
Net income attributable to shareholders of Tricon from discontinued operations	23,127	6,405
Adjusted net income attributable to shareholders of Tricon	$ 207,996	$ 69,252
Weighted average number of common shares outstanding	137,157,260	127,152,721
Adjustments for stock compensation	1,930,279	2,149,934
Adjustments for convertible debentures	23,025,343	–
Weighted average number of common shares outstanding for diluted earnings per share	162,112,882	129,302,655
Diluted earnings per share		
Continuing operations	$ 1.14	$ 0.49
Discontinued operations	0.14	0.05
Diluted earnings per share	**$ 1.28**	**$ 0.54**

16. 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 set out below. AIP awards include both short-term (cash and one-year DSUs) and long-term (three-year DSUs, stock options, restricted shares, and PSUs) incentives.

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Salaries and benefits	$ 14,838	$ 14,169
Annual incentive plan ("AIP")	10,391	11,205
Long-term incentive plan ("LTIP")	11,646	3,726
Total compensation expense	**$ 36,875**	**$ 29,100**

For the years ended December 31	2018		2017	
(in thousands of U.S. dollars)	AIP	LTIP	AIP	LTIP
Cash component	$ 8,307	$ 8,986	$ 8,478	$ 1,236
Restricted shares and share units	1,924	1,254	2,593	1,799
Stock options	6	1,174	–	1,078
DRIP and revaluation loss (gain)[1]	154	232	134	(387)
Total AIP and LTIP expenses	**$ 10,391**	**$ 11,646**	**$ 11,205**	**$ 3,726**

(1) DRIP represents additional DSUs granted at a fair value per unit equal to cash dividends paid per common share.

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

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

Cash component

AIP – The Company's new AIP has been in effect since the beginning of 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 year ended December 31, 2018, the Company recognized $10,237 (2017 – $11,071) in relation to the AIP expense, of which approximately 80% (2017 – 76%), being $8,307, was settled in cash in December 2018.

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 or separate account assets, which result from timing and cash flow changes at the project level of each fund or separate account, and changing business conditions.

For the year ended December 31, 2018, the Company increased its accrual related to cash-component LTIP by $8,986 (2017 – $1,236) as a result of an increase in expected future performance fees from Investment Vehicles that will be paid to management when cash is received from each investment over time. The total LTIP cash payments for the year ended December 31, 2018 were $1,392 (2017 – $279).

Restricted shares and share units

AIP – The remainder of the AIP expense was awarded in: (i) DSUs with a one-year vesting period from the grant date; (ii) DSUs and stock options which will vest over a three-year period from the grant date; (iii) three-year PSUs which will be settled in cash upon vesting; and (iv) restricted shares which will vest on the 12th anniversary of the grant date. For the year ended December 31, 2018, the Company recognized $1,930 in AIP expense (2017 – $2,593), which was granted in performance share units (PSUs), deferred share units (DSUs) and stock options on December 17, 2018 and restricted shares on December 18, 2018 with vesting periods as described above. PSUs are revalued at each reporting date as the total liability amount is dependent on the Company's share price.

LTIP – For the year ended December 31, 2018, the Company accrued $1,254 in LTIP expense (2017 – $1,799) 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 year ended December 31, 2018 is comprised of $1,254 relating to the prior year entitlements.

Stock option plan

For the year ended December 31, 2018, 426,959 stock options were granted (2017 – 990,000), and 92,500 stock options were exercised (2017 – 804,000) (Note 14). For the year ended December 31, 2018, the Company recorded a stock option expense of $1,180 (2017 – $1,078).

The following table presents the inputs used to value the stock options:

For the years ended December 31	2018	2017
Risk-free interest rate (%)	2.0	1.6
Expected option life (years)	4.6	4.4
Expected volatility (%)	22.11	23.62
Average share price (CAD) during the year	10.57	10.82
Weighted average exercise price (CAD)	9.81	11.35

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

For the years ended December 31	2018		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	426,959	9.81	990,000	11.35
Exercised	(92,500)	7.50	(804,000)	8.89
Forfeited	(1,500)	10.57	(41,834)	9.41
Ending balance – outstanding	**4,823,960**	**$ 9.18**	**4,491,001**	**$ 9.08**

		December 31, 2018		
Grant date	Expiration date	Options outstanding	Options exercisable	Exercise price on outstanding options (CAD)
May 19, 2010	May 19, 2020	521,000	521,000	$ 6.00
August 3, 2010	August 3, 2020	49,000	49,000	5.26
November 22, 2011	November 22, 2020	20,000	20,000	4.16
May 17, 2013	May 17, 2020	590,334	590,334	6.81
November 25, 2013	November 25, 2020	148,333	148,333	7.74
March 16, 2015	March 16, 2020	531,666	531,666	10.57
November 17, 2015	November 17, 2020	756,668	756,668	10.03
November 14, 2016	November 14, 2023	790,000	513,332	8.85
December 15, 2017	December 15, 2024	990,000	329,994	11.35
December 17, 2018	December 17, 2025	426,959	–	9.81
Total		**4,823,960**	**3,460,327**	**$ 9.18**

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)	December 31, 2018	December 31, 2017
Amounts payable and accrued liabilities (Note 7)	$ 1,227	$ 420
Equity – contributed surplus	5,319	5,535
Total AIP	**$ 6,546**	**$ 5,955**

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

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
LTIP – liability	$ 21,407	$ 15,224
Equity – contributed surplus	11,031	9,877
Total LTIP	**$ 32,438**	**$ 25,101**

17. 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 had five reportable segments in 2018, 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 Lifestyle Rentals ("TLR"), Tricon Housing Partners ("THP") and Tricon Lifestyle Communities ("TLC") (disposed of in June 2018). 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 year ended December 31, 2018	PF&A	TAH	TLR	THP	TLC	Corporate	Total
Revenue	$ 30,347	$ –	$ –	$ –	$ –	$ –	$ 30,347
Investment income	–	218,932	15,406	11,449	–	–	245,787
	30,347	218,932	15,406	11,449	–	–	276,134
Compensation and general and administration expense	–	–	–	–	–	(46,675)	(46,675)
Interest expense	–	–	–	–	–	(31,686)	(31,686)
Realized and unrealized foreign exchange gain	–	–	–	–	–	1,511	1,511
Other income[1]	–	–	–	–	–	16,701	16,701
Income tax expense	–	–	–	–	–	(22,757)	(22,757)
Net income from continuing operations	30,347	218,932	15,406	11,449	–	(82,906)	193,228
Net income from discontinued operations	–	–	–	–	23,127	–	23,127
Net income	**$ 30,347**	**$ 218,932**	**$ 15,406**	**$ 11,449**	**$ 23,127**	**$ (82,906)**	**$ 216,355**

(in thousands of U.S. dollars)

For the year ended December 31, 2017	PF&A	TAH	TLR	THP	TLC	Corporate	Total
Revenue	$ 25,399	$ –	$ –	$ –	$ –	$ –	$ 25,399
Investment income	–	113,067	12,391	18,209	–	–	143,667
	25,399	113,067	12,391	18,209	–	–	169,066
Compensation and general and administration expense	–	–	–	–	–	(36,374)	(36,374)
Interest expense	–	–	–	–	–	(23,721)	(23,721)
Realized and unrealized foreign exchange expense	–	–	–	–	–	(1,881)	(1,881)
Other expenses[1]	–	–	–	–	–	(31,818)	(31,818)
Income tax expense	–	–	–	–	–	(12,329)	(12,329)
Net income from continuing operations	25,399	113,067	12,391	18,209	–	(106,123)	62,943
Net income from discontinued operations	–	–	–	–	6,405	–	6,405
Net income	**$ 25,399**	**$ 113,067**	**$ 12,391**	**$ 18,209**	**$ 6,405**	**$ (106,123)**	**$ 69,348**

(1) Other income (expenses) include the net change in the fair value of derivative financial instruments, loss on debt extinguishment, transaction costs and amortization expense.

18. 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 year ended December 31, 2018, the Company paid $219 in rental payments to Mandukwe Inc., including realty taxes, maintenance, insurance and utility costs (2017 – $283). 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.

(in thousands of U.S. dollars)	December 31, 2018	December 31, 2017
Contractual fees	$ 26,256	$ 23,486
General partner distributions	1,316	1,388
Performance fees	2,775	525
Total revenue	**$ 30,347**	**$ 25,399**
Investment income – Tricon American Homes	$ 218,932	$ 113,067
Investment income – Tricon Lifestyle Rentals	15,406	12,391
Investment income – Tricon Housing Partners	11,449	18,209
Total investment income from continuing operations	**$ 245,787**	**$ 143,667**
Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities	**$ 21,170**	**$ 7,381**

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)	December 31, 2018	December 31, 2017
Receivables from related parties included in amounts receivable		
Contractual fees and other receivables from investments managed	$ 6,784	$ 6,990
Employee relocation housing loans[1]	2,483	670
Proceeds from disposal of investments held for sale	4,242	–
Loan receivables from investment in associates and joint ventures	18,874	21,903
Annual incentive plan	6,546	5,955
Long-term incentive plan	32,438	25,101
Dividends payable	329	320
Other payables to related parties included in amounts payable and accrued liabilities	42	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 December 31, 2018 (December 31, 2017 – nil).

Key management compensation

Key management includes the Named Executive Officers ("NEOs"), who are the Chief Executive Officer, Chief Financial Officer and the three other most highly-compensated officers or employees of the Company. Compensation paid and awarded to key management for employee services is based on employment agreements and is as follows:

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Total salaries and benefits	$ 2,013	$ 1,789
Total AIP	7,244	5,689
Total LTIP	758	1,533
Total key management compensation	**$ 10,015**	**$ 9,011**

19. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to certain financial risks during or at the end of the reporting period, as described below. The risk management function within the Company is carried out in respect of financial risks. Financial risks are risks arising from financial instruments to which the Company is exposed during or at the end of the reporting period. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk, concentration risk and liquidity risk. The primary objectives of the financial risk management function are to establish risk limits, and then ensure that exposure to risks stays within these limits.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity. Key financial risk management reports are produced frequently and provided to the key management personnel of the Company.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, and the Company's investment risk. Market risk includes the risk of changes in interest rates, foreign currency rates and changes in market prices due to other factors, such as changes in equity prices or credit spreads. The sensitivities to market risks included below are based on a change in one factor while holding all other factors constant. In practice, this is unlikely to occur, and changes in some of the factors may be correlated – for example, changes in interest rates and changes in foreign currency rates.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company invests in debt instruments, the fair values of which vary depending on market interest rates. The potential impact of changes in interest rates on our investment income from debt instruments is disclosed in Note 5.

Interest rate risk arises primarily from the Company's financing arrangements (Note 6). Borrowings issued at variable rates expose the Company to cash flow interest rate risk. To limit its exposure to interest rate risk, the Company has a balanced portfolio of fixed rate and variable rate debt, of which the revolving term credit facility is the only debt instrument subject to a variable interest rate. At December 31, 2018, if interest rates at that date had been 50 basis points higher or lower with all other variables held constant, interest expense for the year would have increased (decreased) by:

For the years ended December 31	2018		2017	
(in thousands of U.S. dollars)	50 bps increase	50 bps decrease	50 bps increase	50 bps decrease
Interest expense	$ 106	$ (106)	$ 55	$ (55)

Foreign currency risk

The Company has exposure to monetary and non-monetary foreign currency risk due to the effects of changes in foreign exchange rates related to consolidated Canadian subsidiaries, investments in Tricon Lifestyle Rentals and Tricon Housing Partners, and cash and debt in Canadian dollars held at the corporate level. A 1% increase or decrease in the Canadian dollar exchange rate would result in the following impacts to assets and liabilities:

For the years ended December 31	2018		2017	
(in thousands of U.S. dollars)	1% increase	1% decrease	1% increase	1% decrease
Assets				
Investments – Tricon Lifestyle Rentals	$ 699	$ (699)	$ 356	$ (356)
Investments – Tricon Housing Partners Canadian funds	66	(66)	97	(97)
	$ 765	**$ (765)**	**$ 453**	**$ (453)**
Liabilities				
Convertible debentures[1]	–	–	686	(686)
Mortgage	71	(71)	80	(80)
Derivative financial instruments[1]	–	–	137	(137)
	$ 71	**$ (71)**	**$ 903**	**$ (903)**

(1) The convertible debentures subject to foreign currency risk were redeemed in full on October 9, 2018, and the value of their associated derivative financial instruments decreased to nil.

The Company manages foreign currency risk by raising equity in Canadian dollars and by matching its principal cash outflows to the currency in which the principal cash inflows are denominated.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. Management believes the credit risk on cash is low because the counterparties are banks with high credit ratings. The Company has no significant concentrations of credit risk and its exposure to credit risk arises through loans and receivables which are due primarily from controlled subsidiaries. The loans and receivables due from subsidiaries are subject to the risk that the underlying real estate assets may not generate sufficient cash inflows in order to recover them. The Company manages this risk by:

- Ensuring a due diligence process is conducted on each investment prior to funding;
- Approving all loan disbursements by management;
- Approving of total loan facilities by the Investment Committee; and
- Actively monitoring the loan portfolio and initiating recovery procedures when necessary.

The Company assesses all counterparties, including its partners, for credit risk before contracting with them. The Company's exposure to credit risk is detailed in the table below. The Company does not include any collateral or other credit risk enhancers, which may reduce the Company's exposure.

The Company provides loans to land developers, which are represented as debt investments. The credit quality of these investments is based on the financial performance of the underlying real estate assets. For those assets that are not past due, it is believed that the capital repayments and interest payments will be made in accordance with the agreed terms and conditions. No terms or conditions have been renegotiated.

At December 31, 2018, the Company's exposure to credit risk arising from its investment in debt instruments was $18,874 (December 31, 2017 – $21,903). Through the equity portion of its investments, the Company is also indirectly exposed to credit risk arising on loans advanced by investees to individual real estate development projects.

As at December 31, 2018, the assets held by the Company are not past due or impaired (2017 – none).

For the year ended December 31, 2018, no unrealized gains (losses) (2017 – none) are attributable to changes in credit risk of these debt instruments.

Concentration risk

Concentration risk arises as a result of the potential concentration of exposures, by country, geographical location, product type, industry sector or counterparty type. As at December 31, 2018, the Company's largest investment, TAH, held 15,439 homes across 16 markets, with the highest fair value investment within a single market comprising 24% of the total portfolio.

The following is a summary of the Company's concentration risk, based on the composition of the fair value of its investments – Tricon American Homes, Tricon Lifestyle Rentals, Tricon Housing Partners and Tricon Lifestyle Communities balances:

(in thousands of U.S. dollars)

State/Province	December 31, 2018	December 31, 2017
USA		
Texas	$ 380,837	$ 310,617
California	220,049	218,776
Arizona	180,630	200,196
Georgia	255,903	202,737
Florida	221,782	188,294
North Carolina	111,915	76,894
Nevada	76,082	62,502
Ohio	–	180
Indiana	28,849	18,740
South Carolina	30,777	17,983
Canada		
Ontario	74,381	38,699
Alberta	303	2,233
British Columbia	2,115	4,200
	$ 1,583,623	**$ 1,342,051**

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 December 31, 2018	Due on demand and within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Liabilities					
Amounts payable and accrued liabilities	$ 6,429	$ –	$ –	$ –	$ 6,429
Dividends payable	7,350	–	–	–	7,350
Revolving term credit facility	–	209,250	–	–	209,250
Debentures payable	–	–	172,500	–	172,500
Mortgage	174	372	405	6,199	7,150
Lease obligation	122	282	340	460	1,204
Derivative financial instruments	–	–	3,936	–	3,936
Total	**$ 14,075**	**$ 209,904**	**$ 177,181**	**$ 6,659**	**$ 407,819**

(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 year ended December 31, 2018, the change in the Company's liquidity resulted in a working capital surplus of $12,451 (December 31, 2017 – surplus of $10,581). As of December 31, 2018, the outstanding amount under the credit facility was $209,250 (December 31, 2017 – $161,500) and $155,750 of the credit facility remained available to the Company. During the year ended December 31, 2018, the Company received distributions of $229,171 (2017 – $97,855) 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 December 31, 2018	Within the year	From 1 to 3 years	From 3 to 5 years	Later than 5 years	Total
Principal					
2022 convertible debentures	$ –	$ –	$ 172,500	$ –	$ 172,500
Mortgage[1]	174	372	405	6,199	7,150
Lease obligation	122	282	340	460	1,204
Interest					
2022 convertible debentures	9,919	19,838	4,959	–	34,716
Mortgage[1]	307	590	557	221	1,675
Lease obligation	64	106	72	33	275
Total	**$ 10,586**	**$ 21,188**	**$ 178,833**	**$ 6,913**	**$ 217,520**

(1) 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)	December 31, 2018	December 31, 2017
Cash	$ 7,773	$ 14,813
Amounts receivable	17,934	13,506
Prepaid expenses and deposits	819	622
Current assets	26,526	28,941
Amounts payable and accrued liabilities	6,429	11,273
Dividends payable	7,350	6,906
Mortgage	174	181
Lease obligation	122	–
Net current assets	**$ 12,451**	**$ 10,581**

20. 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 December 31, 2018, the Company was in compliance with all financial covenants (Note 6).

21. WORKING CAPITAL CHANGES

(in thousands of U.S. dollars)

For the years ended December 31	2018	2017
Amounts receivable	$ (4,428)	$ 3,386
Prepaid expenses and deposits	(197)	1,977
Amounts payable and accruals	(4,844)	381
	$ (9,469)	**$ 5,744**

22. 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 December 31, 2018
Revolving term credit facility	$ 161,500	$ 47,750	$ –	$ –	$ –	$ –	$ 209,250
2020 convertible debentures[2]	60,951	–	(2,088)	–	–	(58,863)	–
2022 convertible debentures	153,196	–	–	–	–	3,916	157,112
Derivative financial instruments	37,494	–	–	(27,680)	–	(5,878)	3,936
Mortgage	7,957	(176)	(631)	–	–	–	7,150
Lease obligation	–	(104)	–	–	1,256	52	1,204
Total liabilities from financing activities	**$ 421,098**	**$ 47,470**	**$ (2,719)**	**$ (27,680)**	**$ 1,256**	**$ (60,773)**	**$ 378,652**

			Non-cash changes				
(in thousands of U.S. dollars)	As at December 31, 2016	Cash flows	Foreign exchange movement	Fair value changes	Addition	Other[1]	As at December 31, 2017
Revolving term credit facility	$ 113,750	$ 47,750	$ –	$ –	$ –	$ –	$ 161,500
2020 convertible debentures	55,107	–	3,165	–	–	2,679	60,951
2022 convertible debentures	–	150,366	–	–	–	2,830	153,196
Derivative financial instruments	28	14,188	2	23,276	–	–	37,494
Mortgage	–	7,842	115	–	–	–	7,957
Total liabilities from financing activities	**$ 168,885**	**$ 220,146**	**$ 3,282**	**$ 23,276**	**$ –**	**$ 5,509**	**$ 421,098**

(1) Includes amortization of debentures discount and issuance costs and interest on lease obligation.

(2) For the year ended December 31, 2018, other non-cash changes for the 2020 convertible debentures include $66,247 of principal converted or redeemed for common shares, net of debentures discount amortization of $1,635, debentures issuance costs amortization of $371, and loss on debt extinguishment of $5,349.

23. INDEMNIFICATION

Pursuant to Indemnification Agreements with certain General Partners of Limited Partnerships managed by the Company and certain shareholders of the Company (who are also officers and directors of the Company), the Company has agreed to indemnify the General Partner and those shareholders and, where applicable, any of their directors, officers, agents and employees (collectively, the Indemnified Parties) for any past, present or future amounts paid or payable by any of the Indemnified Parties to the Limited Partnership in the form of a capital contribution or clawback guarantee relating to performance fees for any claim or obligation, as set out in the Limited Partnership Agreements. There are no amounts payable in respect of this indemnification as of December 31, 2018 (December 31, 2017 – nil).

24. VARIABILITY OF RESULTS

The nature of our business does not allow for consistent year-to-year revenue comparisons.

Revenues earned from an Investment Vehicle are dependent upon where the Investment Vehicle is in its life cycle. At the beginning of the Investment Vehicle's life cycle, consistent contractual fees and general partner distributions are earned to the end of the investment period. Subsequent to the investment period, contractual fees and general partner distributions start to decline as investments are realized. Performance fees that are earned at the end of the life cycle can vary significantly depending on the Investment Vehicle's performance, resulting in volatile revenue streams.

Contractual fees earned from development management and advisory services through Johnson can be variable as they are dependent upon the occurrence of a future event that is the sale of the developed property. Contractual fees earned through TDG are dependent on the project timelines and the achievement of development milestones.

Similarly, the performance of the Company's investments carried at FVTPL may not be consistent from period to period.

25. SUBSEQUENT EVENTS

On February 25, 2019, the Board of Directors of the Company declared a dividend of seven cents per share in Canadian dollars payable on or after April 15, 2019 to shareholders of record on March 31, 2019.

TRICON

CELEBRATING **30 YEARS**

7 St. Thomas Street, Suite 801 Toronto, Ontario M5S 2B7
T 416 925 7228 **F** 416 925 7964 www.triconcapital.com