



**TRICON CAPITAL GROUP INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*MARCH 31, 2011 AND 2010*



# Tricon Capital Group Inc.

## Interim Consolidated Balance Sheets

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

|   | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
|---|-----------------------|--------------------------|
| <b>Assets</b>   |                       |                          |
| <b>Current Assets</b>   |                       |                          |
| Cash and cash equivalents   | \$ 12,876,000         | \$ 19,683,000            |
| Short term investments  | 31,272,000            | 31,156,000               |
| Accounts receivable (note 10)   | 1,562,000             | 920,000                  |
| Prepaid expenses and other assets   | 185,000               | 83,000                   |
|   | <u>45,895,000</u>     | <u>51,842,000</u>        |
| <b>Non-current assets</b>   |                       |                          |
| Investments in associates (note 13)   | 5,589,000             | 35,000                   |
| Intangible assets (note 4)  | 3,641,000             | 3,929,000                |
| Office equipment and leasehold improvements (note 5)                        | 196,000               | 202,000                  |
| Deferred income tax assets (note 9)   | 2,943,000             | 2,889,000                |
| Non-controlling interest (note 23)  | 315,000               | -                        |
|   | <u>315,000</u>        | <u>-</u>                 |
| <b>Total assets</b>   | <u>\$ 58,579,000</u>  | <u>\$ 58,897,000</u>     |
| <b>Liabilities</b>  |                       |                          |
| <b>Current liabilities</b>  |                       |                          |
| Accounts payable and accruals (notes 6 and 10)                              | \$ 1,080,000          | \$ 855,000               |
| Long-term incentive plan accrual - current portion (notes 6, 10 and 21)     | 101,000               | 177,000                  |
| Dividends payable (notes 10 and 15)   | 1,094,000             | 1,094,000                |
| Income taxes payable  | 671,000               | 580,000                  |
|   | <u>2,946,000</u>      | <u>2,706,000</u>         |
| <b>Non-current liabilities</b>  |                       |                          |
| Deferred income tax liabilities (note 9)                                    | 971,000               | 1,059,000                |
| Long-term incentive plan accrual - non-current portion (notes 6, 10 and 21) | 6,479,000             | 5,871,000                |
|   | <u>10,396,000</u>     | <u>9,636,000</u>         |
| <b>Equity attributable to owners of the parent</b>                          |                       |                          |
| Share capital (note 8)  | 57,934,000            | 57,934,000               |
| Contributed surplus   | 766,000               | 555,000                  |
| Deficit   | (10,517,000)          | (9,228,000)              |
|   | <u>48,183,000</u>     | <u>49,261,000</u>        |
| <b>Total equity</b>   | <u>48,183,000</u>     | <u>49,261,000</u>        |
| <b>Total liabilities and equity</b>   | <u>\$ 58,579,000</u>  | <u>\$ 58,897,000</u>     |

Approved by the Board of Directors

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

## Tricon Capital Group Inc.

### Interim Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

|   | For the Three Months Ended |                   |
|---|----------------------------|-------------------|
|   | March 31, 2011             | March 31, 2010    |
| <b>Revenue</b>  |                            |                   |
| Contractual management fees (note 10)                                 | \$ 2,348,000               | \$ 2,552,000      |
| Performance fees (note 10)  | 187,000                    | 670,000           |
| Other revenue (note 22)   | 206,000                    | 6,000             |
|   | <u>2,741,000</u>           | <u>3,228,000</u>  |
| <b>Expenses</b>   |                            |                   |
| Salaries and benefits expense (notes 10 and 20)                       | 1,000,000                  | 1,364,000         |
| Stock option expense (notes 10 and 20)                                | 211,000                    | -                 |
| Long-term incentive plan (notes 10 and 21)                            | 625,000                    | -                 |
| Professional and director's fees expense (notes 10 and 20)            | 294,000                    | 136,000           |
| Formation costs   | 284,000                    | -                 |
| Discretionary management bonus expense (note 10)                      | -                          | 1,309,000         |
| General and administration expense (note 16)                          | 178,000                    | 128,000           |
| Amortization expense  | 305,000                    | 284,000           |
| Realized and unrealized foreign exchange loss                         | 377,000                    | 30,000            |
| Other income (note 19)  | -                          | (214,000)         |
|   | <u>3,274,000</u>           | <u>3,037,000</u>  |
| <b>Income (loss) before non-controlling interest and income taxes</b> | (533,000)                  | 191,000           |
| <b>Non-controlling interest fair value change</b> (note 23)           | <u>315,000</u>             | <u>-</u>          |
| <b>Income (loss) before income taxes</b>                              | (218,000)                  | 191,000           |
| <b>Income tax recovery</b> (note 9)                                   | <u>23,000</u>              | <u>5,000</u>      |
| <b>Net and comprehensive income (loss)</b>                            | <u>\$ (195,000)</u>        | <u>\$ 196,000</u> |
| <b>Basic and diluted income (loss) per share</b> (note 14)            | <u>\$ (0.01)</u>           | <u>\$ 0.03</u>    |

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

## Tricon Capital Group Inc.

### Interim Consolidated Statements of Changes in Equity (Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

|  | <u>Share capital</u> | <u>Contributed surplus</u> | <u>Retained earnings (deficit)</u> | <u>Total equity</u>  |
|--|----------------------|----------------------------|------------------------------------|----------------------|
| <b>Balance at January 1, 2010</b>                        | \$ 1,000             | \$ -                       | \$ 2,222,000                       | \$ 2,223,000         |
| Net and comprehensive income for the period              | -                    | -                          | 196,000                            | 196,000              |
| Equity issuance costs-net of income taxes of \$313,000   | (837,000)            | -                          | -                                  | (837,000)            |
| <b>Balance at March 31, 2010</b>                         | (836,000)            | -                          | 2,418,000                          | 1,582,000            |
| Net and comprehensive loss for the period                | -                    | -                          | (8,665,000)                        | (8,665,000)          |
| Dividends (note 10 and 15)                               | -                    | -                          | (2,981,000)                        | (2,981,000)          |
| Issuance of common shares (note 8)                       | 62,694,000           | -                          | -                                  | 62,694,000           |
| Equity issuance costs-net of income taxes of \$1,439,000 | (3,924,000)          | -                          | -                                  | (3,924,000)          |
| Stock option expense (note 20)                           | -                    | 555,000                    | -                                  | 555,000              |
| <b>Balance at December 31, 2010</b>                      | 57,934,000           | 555,000                    | (9,228,000)                        | 49,261,000           |
| Net and comprehensive loss for the period                | -                    | -                          | (195,000)                          | (195,000)            |
| Dividends (note 10 and 15)                               | -                    | -                          | (1,094,000)                        | (1,094,000)          |
| Stock option expense (note 20)                           | -                    | 211,000                    | -                                  | 211,000              |
| <b>Balance at March 31, 2011</b>                         | <u>\$ 57,934,000</u> | <u>\$ 766,000</u>          | <u>\$ (10,517,000)</u>             | <u>\$ 48,183,000</u> |

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

# Tricon Capital Group Inc.

## Interim Consolidated Statements of Cash Flows (Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

|   | <b>For the Three Months Ended</b> |                       |
|---|-----------------------------------|-----------------------|
|   | <b>March 31, 2011</b>             | <b>March 31, 2010</b> |
| <b>Cash provided by (used in)</b>                       |                                   |                       |
| <b>Operating activities</b>                             |                                   |                       |
| Net and comprehensive income (loss) for the period      | \$ (195,000)                      | \$ 196,000            |
| Adjustments for   |                                   |                       |
| Non-controlling interest (note 23)                      | (315,000)                         | -                     |
| Amortization  | 305,000                           | 284,000               |
| Deferred income taxes (note 9)                          | (137,000)                         | (17,000)              |
| Long-term incentive plan (net of payments of \$25,000)  | 600,000                           | -                     |
| Stock option expense                                    | 211,000                           | -                     |
| Gain on disposal of investment in real estate (note 19) | -                                 | (75,000)              |
| Gain on disposal of MOD Developments Inc. (note 19)     | -                                 | (139,000)             |
| Accrued interest  | (116,000)                         | -                     |
| Other   | (4,000)                           | -                     |
|   | <u>349,000</u>                    | <u>249,000</u>        |
| Changes in non-cash working capital items               |                                   |                       |
| Accounts receivable                                     | (642,000)                         | (455,000)             |
| Prepaid expenses and other assets                       | (102,000)                         | (126,000)             |
| Accounts payable and accruals                           | 157,000                           | 620,000               |
| Income taxes payable                                    | 91,000                            | (335,000)             |
|   | <u>(147,000)</u>                  | <u>(47,000)</u>       |
| <b>Investing activities</b>                             |                                   |                       |
| Purchase of office equipment                            | (11,000)                          | (8,000)               |
| Investment in associates                                | (5,554,000)                       | -                     |
| Proceeds on disposal of investments                     | -                                 | 89,000                |
| Other   | (1,000)                           | 1,000                 |
|   | <u>(5,566,000)</u>                | <u>82,000</u>         |
| <b>Financing activities</b>                             |                                   |                       |
| Dividends paid  | (1,094,000)                       | (875,000)             |
|   | <u>(1,094,000)</u>                | <u>(875,000)</u>      |
| <b>Change in cash during the period</b>                 | <b>(6,807,000)</b>                | <b>(840,000)</b>      |
| <b>Cash - Beginning of period</b>                       | <b>19,683,000</b>                 | <b>1,330,000</b>      |
| <b>Cash - End of period</b>                             | <b>\$ 12,876,000</b>              | <b>\$ 490,000</b>     |
| <b>Supplementary information</b>                        |                                   |                       |
| Income taxes paid                                       | <b>23,000</b>                     | <b>355,000</b>        |

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

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

### 1. NATURE OF BUSINESS

Tricon Capital Group Inc. (Tricon) and its subsidiaries, Tricon Capital GP Inc. (effective March 23, 2011), Tricon USA Inc. and, prior to its disposal on January 1, 2010, MOD Developments Inc. (formerly Tricon Development Group Inc.), 2237176 Ontario Limited (effective May 11, 2010), TCC III Funding Limited, TCC IV Funding Limited, TCC V Funding Limited, TCC VI Funding Limited, Tricon VIII Funding Limited, Tricon X Funding Limited, Tri Continental (1997) Ltd., Tri Continental III Ltd., Tri Continental IV Ltd., Tri Continental Capital V Ltd., Tri Continental Capital VI Ltd., Tricon VIII Ltd. and Tricon X Ltd. (effective May 13, 2010), Tricon Capital Fund XII Co-Investment Inc. (effective March 23, 2011), Tricon XII Funding Limited (effective March 23, 2011), (collectively, the Company) provide asset management services to funds managed by the Company of which the investors are high net worth individuals and institutional investors. Tricon was incorporated in June 1997 under the Business Corporations Act (Ontario) and is situated at 1067 Yonge Street, Toronto, Ontario, M4W 2L2. The Company operates in Canada and in the United States of America.

On May 20, 2010, the Company successfully completed an initial public offering of 8,500,000 common shares at \$6.00 per share.

### 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**

The interim consolidated financial statements are prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting*, and in accordance with the Interpretations of the International Financial Reporting Interpretation Committee as issued by the International Accounting Standards Board. These interim consolidated financial statements have been prepared using the historical cost convention and were authorized for issue on May 11, 2011 by the Board of Directors of Tricon.

#### **Use of estimates**

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity that have a significant risk of material adjustment to the carrying amounts of assets or liabilities within the next fiscal year include accounts payable and accruals, impairment of assets, income taxes, the estimated useful lives of long-lived assets, the determination of the long-term incentive plan accrual and the determination of consolidation requirements for the funds managed by the Company.

#### **Consolidation**

##### *(a) Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. Subsidiaries are fully consolidated from the date on which control is obtained and deconsolidated at the date on which control ceases. Inter-company transactions, balances and unrealized gains on transactions between the Company and its

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

subsidiaries are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been conformed where necessary to ensure consistency with the policies adopted by the Company.

### *(b) Non-controlling interests*

Non-controlling interests relate to limited partners' share of a limited life investment fund consolidated in the Company's financial statements representing a contractual obligation for the Company to deliver to the limited partners a pro rata share of the investment fund's net assets. Accordingly, the non-controlling interests are classified as financial assets or liabilities in accordance with IAS 32 *Financial Instruments: Presentation*.

### **Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable from the provision of services in the ordinary course of the Company's activities. The Company recognizes revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will be received and when specific criteria have been met, as described below.

Revenues primarily comprise contractual management fees and performance fees earned in respect of investment management services provided to investment funds managed by the Company. Contractual management fees are recognized as services are performed and are based on a fixed percentage of each fund's committed capital prior to the expiration of each such fund's investment period and based on invested capital following the expiration of the relevant investment period.

Performance fees are earned based on fixed percentages of the returns of each fund in excess of predetermined thresholds. Performance fees are recognized when the amount of revenue can be reliably measured and it is probable that future economic benefits will flow to the Company, which is generally subsequent to the return of all the original capital provided by investors plus a preferred rate of return as specified in the management agreement. Contractual management fees and performance fees are earned through the Company's fiduciary activities as an investment manager.

### **Investments in associates**

Associates are those entities in which the Company has significant influence, but not control, over financial and operating policies. Investments in associates consist of general partnership interests in and warehoused investments on behalf of investment funds managed by the Company.

#### *a) General Partnership interests*

The Company's ownership interest in certain investment funds managed by the Company and share of income in the investment funds is insignificant (other than those that are consolidated); however, significant influence is exercised through the Company's general partnership interest in certain investment funds. Accordingly, the equity method of accounting is applied to these investments.

#### *b) Warehoused investments*

Warehoused investments 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*

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

*Associates*, which permits investments held by venture capital organizations to be excluded from its scope where those investments are designated, upon initial recognition, at fair value through profit or loss and accounted for in accordance with IAS 39 *Financial Instruments: Recognition and Measurement*, with changes in fair value recognized in the income statement in the period of the change.

### Placement fee and performance fee rights intangible assets

Placement fee intangible assets represent costs incurred to secure investment management contracts. Performance fee rights intangible assets represent costs incurred to obtain rights to receive future performance fees from certain funds. 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 funds, which is generally eight years.

Placement fee and performance fee rights intangible assets are reviewed for impairment at each measurement date or whenever indicators of impairment exist. The impairment assessment is performed at the level of the cash generating unit, which is at the fund level, as this is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash flows from other assets. If determined to be impaired, placement fee and performance fee rights intangible assets are written down to the higher of their value-in-use and fair value less costs to sell.

### Foreign currency translation

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment of the subsidiary. The consolidated financial statements are presented in Canadian dollars, which is Tricon's functional currency and the functional currency of its foreign operations.

Foreign currency transactions are translated into Canadian dollars using exchange rates in effect at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect at the measurement date. Non-monetary assets and liabilities denominated in foreign currencies are translated into Canadian dollars using the historical exchange rate. Gains and losses arising from foreign exchange are included in the statements of comprehensive income (loss).

### Office equipment and leasehold improvements

Furniture, office equipment, computer equipment and leasehold improvements are accounted for at cost less accumulated amortization. Leasehold improvements are amortized on a straight-line basis over the lease term (including reasonably assured renewal options). All other capital assets are amortized on a straight-line basis over their estimated useful lives, as follows:

|                    |         |
|--------------------|---------|
| Furniture          | 3 years |
| Office equipment   | 5 years |
| Computer equipment | 2 years |

Estimated useful lives and residual values of capital assets are reviewed and adjusted, if appropriate, at least each financial year-end. Office equipment and leasehold improvements are tested for impairment whenever indicators of impairment exist. An impairment writedown is recorded when the carrying amount of a capital asset is determined to exceed its recoverable

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

amount. The recoverable amount is the greater of an asset's fair value less cost to sell and its value-in-use.

### **Financial instruments**

The Company's financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, non-controlling interests, accounts payable and accruals and dividends payable. Cash and cash equivalents, short-term investments and accounts receivable are classified as loans and receivables. Loans and receivables and accounts payable and accruals are initially recognized at fair value and subsequently accounted for at amortized cost. Interest income and expense are accounted for using the effective interest rate method.

Loans and receivables are assessed to determine whether objective evidence of impairment exists at each reporting date. Impairment losses are measured as the difference between the carrying amount of the asset and the present value of the estimated future cash flows, discounted at the asset's original effective interest rate. Impairment losses are reversed in subsequent periods if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized.

### **Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

### **Dividends**

Dividends are accrued when declared by Tricon's Board of Directors.

### **Current and deferred income taxes**

Income tax (recovery) expense includes current and deferred income taxes. Income tax (recovery) expense is recognized in the income statement, except to the extent that it relates to items recognized directly in equity, in which case the tax is also recognized directly in equity. Income taxes are calculated based on the enacted or substantively enacted rates in effect at the consolidated balance sheet date. Management evaluates uncertain tax positions subject to interpretation and establishes provisions as appropriate, based on expectations about future settlements, using the best estimate approach.

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.

### **Related parties**

Transactions and balances with related parties are identified by management and separately disclosed in the consolidated financial statements (note 10).

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

### Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are recorded as an expense in net income on a straight-line basis over the term of the lease. Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments.

### Share Capital

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

### Earnings (loss) per share

The treasury stock method is used in the calculation of per share amounts. Basic earnings (loss) per share are determined by the weighted average number of shares outstanding during the period, 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. The Company also considers the effects of stock options in calculating diluted earnings per share.

### 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 of the options is recognized as compensation cost using the graded vesting method over the vesting period of the options.

### Long-term incentive plan

Payments under the Company's long-term incentive plan ("**LTIP**"), which are paid to participants of the plan only if and when performance fees are generated from funds under management, are based on 50% of performance fees earned by the Company. Amounts under the LTIP are allocated among the employees based on amounts defined in employment agreements. The Company accounts for its LTIP using the fair value based method under which compensation expense is recognized beginning at the time of grant for the estimated fair value, adjusted each period, of the participant's rights, as they vest.

## 3. VARIABILITY OF RESULTS

The nature of our business does not allow for consistent year-to-year or period-to-period revenue comparisons. Revenues earned from a fund are dependent upon where the fund is in its life cycle. At the beginning of the fund's life cycle, consistent contractual management fees are earned to the end of the investment period. Subsequent to the investment period, contractual management fees start to decline as investments within a fund are completed. Performance fees which are earned at the end of the life cycle can vary significantly depending on fund performance resulting in volatile revenue streams.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

### 4. INTANGIBLE ASSETS

|                                     | <u>Placement fees</u> | <u>Rights to<br/>performance fees</u> | <u>Total</u>       |
|-------------------------------------|-----------------------|---------------------------------------|--------------------|
| <b>As at January 1, 2010</b>        |                       |                                       |                    |
| Cost                                | \$ 8,516,000          | \$ 707,000                            | \$ 9,223,000       |
| Accumulated amortization            | <u>(4,169,000)</u>    | <u>-</u>                              | <u>(4,169,000)</u> |
| Net book value                      | <u>4,347,000</u>      | <u>707,000</u>                        | <u>5,054,000</u>   |
| <b>Year ended December 31, 2010</b> |                       |                                       |                    |
| Opening Net book value              | 4,347,000             | 707,000                               | 5,054,000          |
| Amortized expense                   | <u>(1,071,000)</u>    | <u>(54,000)</u>                       | <u>(1,125,000)</u> |
| Net book value                      | <u>3,276,000</u>      | <u>653,000</u>                        | <u>3,929,000</u>   |
| <b>As at December 31, 2010</b>      |                       |                                       |                    |
| Cost                                | 8,516,000             | 707,000                               | 9,223,000          |
| Accumulated amortization            | <u>(5,240,000)</u>    | <u>(54,000)</u>                       | <u>(5,294,000)</u> |
| Net book value                      | <u>3,276,000</u>      | <u>653,000</u>                        | <u>3,929,000</u>   |
| <b>Period ended March 31, 2011</b>  |                       |                                       |                    |
| Opening Net book value              | 3,276,000             | 653,000                               | 3,929,000          |
| Amortized expense                   | <u>(268,000)</u>      | <u>(20,000)</u>                       | <u>(288,000)</u>   |
| Net book value                      | <u>3,008,000</u>      | <u>633,000</u>                        | <u>3,641,000</u>   |
| <b>As at March 31, 2011</b>         |                       |                                       |                    |
| Cost                                | 8,516,000             | 707,000                               | 9,223,000          |
| Accumulated amortization            | <u>(5,508,000)</u>    | <u>(74,000)</u>                       | <u>(5,582,000)</u> |
| Net book value                      | <u>3,008,000</u>      | <u>633,000</u>                        | <u>3,641,000</u>   |

There were no impairment charges of Placement fees and Rights to performance fees during the three month periods ended March 31, 2011 and 2010.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

### 5. OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS

|                                     | <u>Furniture</u> | <u>Office equipment</u> | <u>Computer equipment</u> | <u>Leasehold improvements</u> | <u>Total</u>      |
|-------------------------------------|------------------|-------------------------|---------------------------|-------------------------------|-------------------|
| <b>As at January 1, 2010</b>        |                  |                         |                           |                               |                   |
| Cost                                | \$ 132,000       | \$ 50,000               | \$ 399,000                | \$ 426,000                    | \$ 1,007,000      |
| Accumulated amortization            | <u>(131,000)</u> | <u>(36,000)</u>         | <u>(388,000)</u>          | <u>(261,000)</u>              | <u>(816,000)</u>  |
| Net book value                      | <u>1,000</u>     | <u>14,000</u>           | <u>11,000</u>             | <u>165,000</u>                | <u>191,000</u>    |
| <b>Year ended December 31, 2010</b> |                  |                         |                           |                               |                   |
| Opening Net book value              | 1,000            | 14,000                  | 11,000                    | 165,000                       | 191,000           |
| Additions                           | 14,000           | 8,000                   | 52,000                    | -                             | 74,000            |
| Amortized expense                   | <u>(2,000)</u>   | <u>(8,000)</u>          | <u>(26,000)</u>           | <u>(27,000)</u>               | <u>(63,000)</u>   |
| Net book value                      | <u>13,000</u>    | <u>14,000</u>           | <u>37,000</u>             | <u>138,000</u>                | <u>202,000</u>    |
| <b>As at December 31, 2010</b>      |                  |                         |                           |                               |                   |
| Cost                                | 146,000          | 58,000                  | 451,000                   | 426,000                       | 1,081,000         |
| Accumulated amortization            | <u>(133,000)</u> | <u>(44,000)</u>         | <u>(414,000)</u>          | <u>(288,000)</u>              | <u>(879,000)</u>  |
| Net book value                      | <u>13,000</u>    | <u>14,000</u>           | <u>37,000</u>             | <u>138,000</u>                | <u>202,000</u>    |
| <b>Period ended March 31, 2011</b>  |                  |                         |                           |                               |                   |
| Opening Net book value              | 13,000           | 14,000                  | 37,000                    | 138,000                       | 202,000           |
| Additions                           | -                | -                       | 11,000                    | -                             | 11,000            |
| Amortized expense                   | <u>(1,000)</u>   | <u>(3,000)</u>          | <u>(6,000)</u>            | <u>(7,000)</u>                | <u>(17,000)</u>   |
| Net book value                      | <u>12,000</u>    | <u>11,000</u>           | <u>42,000</u>             | <u>131,000</u>                | <u>196,000</u>    |
| <b>As at March 31, 2011</b>         |                  |                         |                           |                               |                   |
| Cost                                | 146,000          | 58,000                  | 462,000                   | 426,000                       | 1,092,000         |
| Accumulated amortization            | <u>(134,000)</u> | <u>(47,000)</u>         | <u>(420,000)</u>          | <u>(295,000)</u>              | <u>(896,000)</u>  |
| Net book value                      | <u>\$ 12,000</u> | <u>\$ 11,000</u>        | <u>\$ 42,000</u>          | <u>\$ 131,000</u>             | <u>\$ 196,000</u> |

There were no impairment charges during the three month periods ended March 31, 2011 and 2010.

### 6. ACCOUNTS PAYABLE AND ACCRUALS

|                               | <u>March 31,<br/>2011</u> | <u>December 31,<br/>2010</u> |
|-------------------------------|---------------------------|------------------------------|
| Accounts payable and accruals | \$ 980,000                | \$ 753,000                   |
| STIP (note 20)                | <u>100,000</u>            | <u>102,000</u>               |
|                               | <u>\$ 1,080,000</u>       | <u>\$ 855,000</u>            |

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

### 7. LEASE COMMITMENTS

The Company has a lease commitment on its head office premises located at 1067 Yonge Street, Toronto, Ontario. The landlord is Mandukwe Inc., a related corporation (note 9). The minimum rental amount is \$43,000 per annum extending to November 30, 2019. Additional maintenance and utility costs and realty taxes are payable as incurred.

In addition, the Company leases office equipment and furniture. The future minimum payments in respect of the office equipment and furniture leases are:

|            |    |        |
|------------|----|--------|
| 2011       | \$ | 22,000 |
| 2012       |    | 25,000 |
| 2013       |    | 25,000 |
| 2014       |    | 21,000 |
| 2015       |    | 8,000  |
| Thereafter |    | -      |

### 8. SHARE CAPITAL

| Date   | Particulars   | Notes | No of shares<br>Issued   |                             |
|--|---|-------|--------------------------|-----------------------------|
| <b>As at January 1, 2010 - Opening Balance</b>                     |   |       | <b>1,000,000</b>         | <b>\$ 1,000</b>             |
| May 11, 2010   | Issued 8,880 and 4,781 common shares to Alhurst (1) and Mandukwe, respectively at \$51.79 per share   |       | 13,661                   | 707,000                     |
|  |   |       | <u>1,013,661</u>         | <u>\$ 708,000</u>           |
| May 13, 2010   | Stock Split of 1,013,661 common shares on a 7.803170883 for 1 basis   |       | 7,909,770                | \$ 708,000                  |
| May 13, 2010   | Issued 3 and 6 common shares to Alhurst and (2) Mandukwe, respectively for \$54   |       | 9                        | -                           |
| May 13, 2010   | Issued 679,921 common shares from treasury to two officers in consideration for their past services to the Company at \$6 per share                             |       | 679,921                  | 4,080,000                   |
| May 19, 2010   | Issued 160,300 common shares from treasury to the employees in consideration for their past services to the Company at \$6 per share                            |       | 160,300                  | 962,000                     |
| May 20, 2010   | Issued 8,500,000 common shares at \$6 per share upon completion of the initial public offering, net of issuance costs of \$4,398,000, net of tax of \$1,616,000 |       | 8,500,000                | 46,602,000                  |
| June 17, 2010  | Exercise of over-allotment option by underwriters at \$6.00 per share, net of issuance costs of \$342,000 net of tax of \$128,000                               |       | 990,871                  | 5,603,000                   |
|  | Additional issuance costs of \$21,000, net of tax of \$8,000  |       | -                        | (21,000)                    |
| <b>As at March 31, 2011 and December 31, 2010 - Ending Balance</b> |   |       | <b><u>18,240,871</u></b> | <b><u>\$ 57,934,000</u></b> |

#### Notes

(1) The shares were issued in exchange for the transfer to the Company of all the issued and outstanding shares of 2237176 Ontario Limited, which indirectly held an 80% and 86.5% interest in the performance fees receivable in respect of Tri Continental Capital VII Limited Partnership and Tricon IX Limited Partnership, respectively.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

(2) The shares were issued as partial consideration for Canadian General Partners shares (TCC III Funding Limited, TCC IV Funding Limited, TCC V Funding Limited, TCC VI Funding Limited, Tricon VIII Funding Limited, Tricon X Funding Limited, Tri Continental (1997) Ltd., Tri Continental III Ltd, Tri Continental IV Ltd., Tri Continental V Ltd., Tri Continental VI Ltd., Tricon VIII Ltd. and Tricon X Ltd.) and transfer of rights to performance fees.

The Company can issue unlimited common shares and unlimited redeemable and retractable Class A, B and C shares. As of March 31, 2011, the Company had 18,240,871 common shares outstanding (December 31, 2010 – 18,240,871 common shares outstanding).

### 9. INCOME TAXES

|   | <b>Three Months Ended March 31,</b> |                 |
|---|-------------------------------------|-----------------|
|   | <b>2011</b>                         | <b>2010</b>     |
| Current income tax                                |                                     |                 |
| Current income taxes on income for the period     | \$ (114,000)                        | \$ (12,000)     |
|   | <u>(114,000)</u>                    | <u>(12,000)</u> |
| Deferred taxes                                    |                                     |                 |
| Origination and reversal of temporary differences | 140,000                             | 19,000          |
| Impact of change in effective rates               | (3,000)                             | (2,000)         |
|   | <u>137,000</u>                      | <u>17,000</u>   |
| Income tax recovery                               | <u>\$ 23,000</u>                    | <u>\$ 5,000</u> |

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:

|   | <b>Three Months Ended March 31,</b> |                   |
|---|-------------------------------------|-------------------|
|   | <b>2011</b>                         | <b>2010</b>       |
| Income (loss) before income taxes   | <u>\$ (218,000)</u>                 | <u>\$ 191,000</u> |
| Combined statutory federal and provincial income tax                          | 28.25%                              | 30.99%            |
| Expected income tax (expense) recovery  | 62,000                              | (59,000)          |
| Tax rate differential (foreign tax rates)                                     | 32,000                              | -                 |
| Tax effects of  |                                     |                   |
| Permanent differences   | (65,000)                            | 23,000            |
| Change in effective tax rates   | (3,000)                             | (2,000)           |
| Valuation allowance in respect of deferred tax asset of MOD Developments Inc. | -                                   | 46,000            |
| Other   | (3,000)                             | (3,000)           |
| Income tax recovery   | <u>\$ 23,000</u>                    | <u>\$ 5,000</u>   |

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

The following is an analysis of the Company's deferred income tax assets and deferred income tax liabilities:

|   | <u>March 31,</u><br><u>2011</u> | <u>December 31,</u><br><u>2010</u> |
|---|---------------------------------|------------------------------------|
| Deferred income tax assets relating primarily to equity issuance costs and LTIP to be recovered after more than 12 months | \$ 2,943,000                    | \$ 2,889,000                       |
| Deferred income tax liabilities relating to non-current assets to be recovered after more than 12 months                  | 971,000                         | 1,059,000                          |

### 10. RELATED PARTY TRANSACTIONS AND BALANCES

Until May 19, 2010, the Company was owned by Alhurst Holdings Inc. (Alhurst), Mandukwe Inc. (Mandukwe) and an officer of the Company. The Company completed an initial public offering on May 20, 2010.

The Company leases office space from Mandukwe, a company that is owned by a director of Tricon. During the three months ended March 31, 2011, the Company paid \$23,000 in rental payments, including common costs, to Mandukwe (2010 - \$23,000).

#### Key management compensation

Key management includes directors and the "Named Executive Officers" which are the current Chief Executive Officer, Chief Financial Officer and the top three executive officers of the Company. Compensation paid or payable to key management for employee services is as follows:

|  | <u>Three Months Ended March 31,</u> |                     |
|--|-------------------------------------|---------------------|
|  | <u>2011</u>                         | <u>2010</u>         |
| Salaries & benefits                      | \$ 454,000                          | \$ 427,000          |
| Discretionary (pre-IPO) management bonus | -                                   | 1,309,000           |
| STIP and stock option expense (note 20)  | 225,000                             | 100,000             |
| LTIP paid                                | 79,000                              | 169,000             |
| LTIP accrued (note 21)                   | <u>408,000</u>                      | <u>-</u>            |
|  | 1,166,000                           | 2,005,000           |
| Director's compensation (note 20)        | <u>56,000</u>                       | <u>-</u>            |
|  | <u>\$ 1,222,000</u>                 | <u>\$ 2,005,000</u> |

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

### Transactions with related parties

The following table summarizes revenue from investment funds managed by the Company, which are considered related parties as the Company is the general partner of the investment funds:

|                             | <b>Three Months Ended March 31,</b> |                    |
|-----------------------------|-------------------------------------|--------------------|
|                             | <b>2011</b>                         | <b>2010</b>        |
| Contractual management fees | \$ 2,348,000                        | \$ 2,552,000       |
| Performance fees            | 187,000                             | 670,000            |
|                             | <u>\$2,535,000</u>                  | <u>\$3,222,000</u> |

The Company also received or accrued distributions from an investment fund it consolidates of \$25,000 in the three month period ended March 31, 2011 (2010 – \$nil), which is not shown in the consolidated income statement as it is eliminated on consolidation of the fund.

### Balances arising from transactions with related parties

|   | <b>March 31,</b> | <b>December 31,</b> |
|---|------------------|---------------------|
|   | <b>2011</b>      | <b>2010</b>         |
| Receivables from related parties included in accounts receivable                    |                  |                     |
| Contractual management fees receivable from investment funds managed by the Company | \$ 459,000       | \$ 436,000          |
| Performance fees receivable from investment funds managed by the Company            | 52,000           | 103,000             |
| Loans receivable from the funds   | 611,000          | 203,000             |
| Other receivables   | 250,000          | -                   |
| Payables to related parties included in accounts payable and accruals (note 1)      | 29,000           | 69,000              |
| Long Term Incentive Plan (short and long term portion)                              | 6,580,000        | 6,048,000           |
| Short Term Incentive Plan   | -                | 102,000             |
| Dividends payable to employees and associated corporations                          | 406,000          | 406,000             |

*Note 1 – Payables to related parties include compensation accruals and an amount of office rent payable to Mandukwe Inc. (note 6).*

Revenues and receivables from related parties relate to contractual management and performance fees for services provided by the Company. The receivables are unsecured and are non-interest bearing except for the Loans receivable from the funds which bear an interest rate of 9%. There are no provisions recorded against receivables from related parties at March 31, 2011 (December 31, 2010 - \$nil).

The Company and its founding shareholders have indemnified the limited partners of certain funds the Company manages. Refer to note 17 for further details.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

### 11. CAPITAL RISK MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. 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.

### 12. FINANCIAL INSTRUMENTS

The Company's activities expose it to certain financial risks including interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's exposure to interest rate risk is limited due to the short-term nature of the Company's financial instruments. The effects on net and comprehensive income (loss) of possible changes in interest rates resulting from changes in the fair values of, or cash flows associated with, the Company's financial instruments would not be significant to the Company's operations.

The Company has exposure to foreign currency risk due to the effects of changes in foreign exchange rates related to investments and cash in US dollars. A one percentage movement in the US dollar exchange rate would result in a \$174,000 movement in unrealized foreign exchange income (loss) in the income statement.

Credit risk arises from cash and cash equivalents, short-term investments, accounts receivable and non-controlling interests. The Company's cash and cash equivalents and short-term investments are held by financial institutions with a minimum credit rating of AA. The Company's receivables consist primarily of contractual management fees and performance fees that are receivable from investment funds managed by the Company. The fair values of these financial instruments approximate their carrying values due to the short maturity of the financial instruments.

The maturities of all of the Company's financial liabilities are less than twelve months.

### 13. INVESTMENT IN ASSOCIATES

The Company invested US\$5.8 million (\$5.6 million Canadian equivalent as of March 31, 2011) in The New Home Company ("TNHC"), an Orange County, California-based homebuilding and land development company. Pursuant to the IAS 28 *Investment in Associates* exemption for venture capital organizations, the investment in TNHC was designated, upon initial recognition, at fair value through profit or loss and is accounted for in accordance with IAS 39, with changes in fair value recognized in the income statement in the period of the change. The fair value of the TNHC investment as of March 31, 2011 approximates its fair value upon acquisition.

### 14. INCOME (LOSS) PER SHARE

Income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the period. The Company's stock options are anti-dilutive at March 31, 2011 (there were no outstanding stock options at March 31, 2010).

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

|  | Three Months Ended March 31, |            |
|--|------------------------------|------------|
|  | 2011                         | 2010       |
| Net income (loss)                                    | \$ (195,000)                 | \$ 196,000 |
| Basic and diluted net income (loss) per share        | \$ (0.01)                    | \$ 0.03    |
| Weighted average number of common shares outstanding | 18,240,871                   | 7,803,171  |

### 15. DIVIDENDS PER SHARE

In the three months ended March 31, 2011, dividends were declared of 6 cents per share, totaling \$1,094,000 (2010 - \$nil). Such dividends were paid on April 15, 2011.

### 16. GENERAL AND ADMINISTRATION

|                  | Three Months Ended March 31, |                   |
|------------------|------------------------------|-------------------|
|                  | 2011                         | 2010              |
| Office and other | \$ 150,000                   | \$ 96,000         |
| Rent (note 9)    | 23,000                       | 23,000            |
| Travel           | 5,000                        | 9,000             |
|                  | <u>\$ 178,000</u>            | <u>\$ 128,000</u> |

### 17. 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 at March 31, 2011 (December 31, 2010 - \$nil).

### 18. ENTITY-WIDE DISCLOSURE

|                          | For the Period Ended |                     |
|--------------------------|----------------------|---------------------|
|                          | March 31,<br>2011    | March 31<br>2010    |
| <b>Revenue</b>           |                      |                     |
| Canada                   | \$ 1,363,000         | \$ 1,771,000        |
| United States of America | 1,378,000            | 1,458,000           |
|                          | <u>\$ 2,741,000</u>  | <u>\$ 3,228,000</u> |

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements (Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

|                           | <u>March 31,</u><br><u>2011</u> | <u>December 31,</u><br><u>2010</u> |
|---------------------------|---------------------------------|------------------------------------|
| <b>Non-current assets</b> |                                 |                                    |
| Canada                    | \$ 4,240,000                    | \$ 3,906,000                       |
| United States of America  | 8,444,000                       | 3,149,000                          |
|                           | <u>\$ 12,684,000</u>            | <u>\$ 7,055,000</u>                |

Revenue from funds under management that represent greater than 10% of revenues is as follows:

|   | <b>Three Months Ended March 31,</b> |             |
|---|-------------------------------------|-------------|
|   | <u>2011</u>                         | <u>2010</u> |
| Tri Continental Capital VI Limited Partnership  | \$ 248,000                          | \$ 388,000  |
| Tri Continental Capital VII Limited Partnership | 397,000                             | 421,000     |
| Tricon VIII Limited Partnership                 | 322,000                             | 321,000     |
| Tricon IX Limited Partnership                   | 981,000                             | 1,036,000   |
| Tricon X Limited Partnership                    | 322,000                             | 322,000     |

### 19. OTHER INCOME

Other income comprises:

- a) A gain on the disposal of the Company's 100% interest in MOD Developments Inc. on January 1, 2010 for net proceeds of \$100 and the assumption by the acquirer of the liabilities of MOD Developments Inc. resulted in a gain of \$139,000.
- b) A gain on the disposal of an investment in real estate for net proceeds of \$89,000 resulting in a gain of \$76,000.

### 20. COMPENSATION ARRANGEMENTS

The breakdown of the various compensation arrangements is as follows:

|  | <b>Three Months Ended March 31,</b> |             |
|--|-------------------------------------|-------------|
|  | <u>2011</u>                         | <u>2010</u> |
| Stock options expense  | 211,000                             | -           |
| Short-term incentive plan (included in salaries and benefits expenses) | 100,000                             | -           |
| Deferred Share Unit Plan   | 28,000                              | -           |
| Long-term incentive plan (note 21)                                     | 625,000                             | -           |

The Company operates various equity-settled and cash-settled arrangements. The sections below detail the different arrangements.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

### Stock option plan

Stock options may be granted to all employees. The exercise price of the options, at the grant date, is no less than the volume-weighted average trading price of the common shares for the five trading days immediately preceding the grant date.

The options are not conditional on any performance criteria, and shall vest equally at one-third per year from the anniversary of the grant date (the vesting period) provided the optionee is employed with the Company. The options are exercisable at any time from the date of vesting and have a contractual option term of 10 years. The Company has no legal or constructive obligation to repurchase or settle the options in cash. All options will be settled in equity.

The first issuance of options under the stock option plan occurred on May 19, 2010 of 895,000 stock options. On August 3, 2010, 71,500 additional stock options were granted to employees of the Company, and no options have been exercised during the three months ended March 31, 2011. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

|   | <u>March 31, 2011</u>                   |                               |
|---|---|-------------------------------|
|   | <u>Average exercise price per share</u> | <u>Options (in thousands)</u> |
| As of January 1, 2010 and December 31, 2010 | \$ 5.94                                 | 941.5                         |
| Granted during the period                   | -                                       | -                             |
| Forfeited during the period                 | -                                       | -                             |
| As of March 31, 2011                        | <u>\$ 5.94</u>                          | <u>941.5</u>                  |

No options were exercisable as of March 31, 2011 as the first vesting date has not yet been met for the options granted.

|                    | <u>March 31, 2011</u>           |                               |
|--------------------|---------------------------------|-------------------------------|
| <u>Expiry date</u> | <u>Exercise price per share</u> | <u>Options (in thousands)</u> |
| May 19, 2020       | \$ 6.00                         | 870.0                         |
| August 3, 2020     | 5.26                            | 71.5                          |

There were no options granted in the three months ended March 31, 2011. The fair value of the options granted in 2010 was determined using the Black-Scholes valuation model. The fair value of the options granted in 2010 totaled \$1,385,000. The significant inputs into the model were:

|                         | <u>May 19, 2010</u> | <u>August 3, 2010</u> |
|-------------------------|---------------------|-----------------------|
| Share price             | \$ 6.00             | \$ 5.50               |
| Exercise price          | \$ 6.00             | \$ 5.26               |
| Expected volatility     | 34%                 | 34%                   |
| Expected dividend yield | 4.00%               | 4.36%                 |
| Expected option life    | 6 years             | 6 years               |
| Risk free rate          | 3.38%               | 3.35%                 |

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

Tricon became a public company on May 20, 2010 and, as such, expected volatility was determined based on volatility over the last six years of a group of publicly traded companies deemed to be of comparable size and nature to Tricon.

### Short-term incentive plan

All of the Company's employees participate in the short-term incentive plan (STIP). The STIP pool is determined based on 12.5% of base operating income as defined in the plan and is paid on an annual basis in cash. Employees are required to be employed with the Company to receive a payment under the STIP.

STIP expense is accrued quarterly and is recorded in salaries and benefits expense. STIP expense for the three months ended March 31, 2011 is \$100,000 (March 31, 2010 - \$nil).

### Deferred share unit plan

On May 20, 2010, the Company established a Directors' deferred share unit plan ("DSUP") to allow participants to participate in the long-term success of Tricon and promote a greater alignment of interests between the participants and shareholders of the Company, while reducing the cash requirements of Tricon, to the extent participants elect to receive their fees in the form of deferred units. Each Independent member of the Board, at their discretion, is eligible to participate in the DSUP.

Under the DSUP, each Independent director is entitled to elect to have any amount or percentage of their director fees contributed to the DSUP. The number of DSUs are determined by dividing the amount of the elected fee by the Market Price of the Company's shares on the grant date, which is the 15th day following the end of any fiscal quarter. The market price ("**Market Price**") is defined as the five day average of the closing price of the Company's shares on the TSX ending on the last trading date immediately preceding the date as of which the market price is determined. All notional units vest as of the grant date. Additional DSUs are issued equivalent to the value of any cash dividends that would have been paid on the common shares.

Notional units issued under the DSUP may only be redeemed by the Independent director when such director no longer serves on the Board of Tricon. Redemptions will be paid out in cash. The directors that elect the amount of his or her fees that will be contributed to the DSUP upon commencement of their term as a member of the Board. Directors may change their election from fiscal quarter to fiscal quarter.

The liability is fair valued at each reporting date, based on the share price of the Company as at the reporting date and is recorded within current liabilities as there are no vesting requirements and payment takes place when a Board member resigns, which could take place at any time. DSUP expense for the three months ended March 31, 2011 is \$28,000 (2010 - \$nil).

Upon the redemption of the DSUs, the Company shall pay to the Independent director a lump sum cash payment (rounded to the nearest cent) equal to the number of DSUs to be redeemed multiplied by the Market Price of the Company's common shares on the redemption date, net of applicable deductions and withholdings. If an Independent director ceases to be an eligible director, he may choose a redemption date by giving written notice to the Company provided that such date is not prior to the tenth day following the release of the Company's quarterly or annual results and is not later than eleven months following the cessation of the Independent director being an eligible director. If written notice is not provided, the redemption date is deemed to be eleven months from the cessation of the Independent director being an eligible director.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(rounded to the nearest thousands of dollars, except per share amounts)

### 21. LONG-TERM INCENTIVE PLAN

Certain of the Company's executives and management participate in the LTIP. The LTIP pool is determined based on 50% of performance fees earned from funds managed by the Company and is paid to plan participants only if and when performance fees are generated from the funds. LTIP for all employees in funds Tricon X and prior is fully vested. For future funds, the employees LTIP entitlements will vest at one third each year from the first closing of such future funds. The LTIP liability is determined based on 50% of the expected performance fee that would be generated from the fair value of the assets within each fund at the balance sheet date, such performance fees will be recognized as revenue when earned. The fair value determination of the assets within a fund is based on a discounted cash flow model and requires management to make estimates and judgments concerning the future. These estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors. The resulting accounting estimates may differ from the related actual results. These estimates, assumptions and management judgments could result in a material adjustment to the carrying value of amounts of the LTIP liability within the next financial year.

The most significant assumptions used in determining the LTIP liability relate to the future cash flows anticipated from projects within the funds managed by the Company and the discount rate applied to those cash flows.

If the expected performance fee cash flows relating to each project were increased or decreased by 5%, the LTIP liability would increase by \$77,000 or decrease by \$77,000. The weighted average discount rate used by management in calculating the fair value of performance fees for the LTIP liability is 30%. If the discount rate was increased or decreased by 5%, the LTIP liability would decrease by \$213,000 or increase by \$267,000, respectively.

The current portion of the LTIP liability of \$101,000 is based on expected payments under the LTIP to be made within the next twelve months. The remaining LTIP liability of \$6,479,000 is classified in non-current liabilities. LTIP expense was \$625,000 for the three months ended March 31, 2011 (three months ended March 31, 2010 - \$nil).

| LTIP Rollforward                      | Three Months Ended March 31,<br>2011 | Year ended December 31,<br>2010 |
|---------------------------------------|--------------------------------------|---------------------------------|
| Opening balance - beginning of period | \$ 6,048,000                         | \$ -                            |
| Payments                              | (93,000)                             | (307,000)                       |
| LTIP expense                          | 625,000                              | 6,355,000                       |
| Closing balance - end of period       | <u>\$ 6,580,000</u>                  | <u>\$ 6,048,000</u>             |

### 22. OTHER REVENUE

Other revenue represents interest income earned on short term investments and temporary loans provided to the funds.

### 23. NON-CONTROLLING INTEREST

Non-controlling interest represents the limited partners' share of Tricon XII Limited Partnership ("Tricon XII"). Tricon XII was formed on March 23, 2011 and incurred formation costs in the period ended March 31, 2011 of \$421,000. At the time of the initial closing, the Company had a 29%

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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(rounded to the nearest thousands of dollars, except per share amounts)

interest in Tricon XII through its wholly-owned subsidiary Tricon Capital Fund XII Co-Investment Inc. As new limited partners are admitted to Tricon XII during subsequent closings, the Company's interest in the fund will decrease proportionately.

In accordance with the limited partnership agreement between Tricon XII limited partners, a certain percentage of net income will be distributed to the general partner, Tricon Capital GP Inc., another wholly-owned subsidiary of the Company.

The non-controlling interest fair value as of March 31, 2011 was \$315,000 (December 31, 2010 - \$nil).

### **24. NEW ACCOUNTING REQUIREMENTS**

There are no standards and interpretations in issue but not yet adopted that are expected to have a material effect on the reported income or net assets of the Company.

### **25. SUBSEQUENT EVENTS**

On May 11, 2011, the Company declared a dividend of \$0.06 per share for a total dividend of \$1,094,000, following approval from the Board of Directors.