



**TRICON CAPITAL GROUP INC.**

**CONSOLIDATED FINANCIAL STATEMENTS**  
*DECEMBER 31, 2012 AND 2011*





March 12, 2013

## **Independent Auditor's Report**

### **To the Shareholders of Tricon Capital Group Inc.**

We have audited the accompanying consolidated financial statements of Tricon Capital Group Inc. (the Company) and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2012 and December 31, 2011 and the consolidated statements of net and comprehensive income (loss), cash flows, and changes in equity for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its subsidiaries as at December 31, 2012 and December 31, 2011 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) “PricewaterhouseCoopers LLP”**

**Chartered Accountants, Licensed Public Accountants**

# Tricon Capital Group Inc.

## Consolidated Balance Sheets

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

	<u>Notes</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	\$ 38,321,000	\$ 22,008,000
Short-term investments	4	4,094,000	9,188,000
Accounts receivable	5	2,226,000	779,000
Prepaid expenses and other assets		1,242,000	154,000
Inventory homes	6	14,544,000	-
Income taxes recoverable		-	185,000
		<u>60,427,000</u>	<u>32,314,000</u>
<b>Non-current assets</b>			
Loan receivable	5,7	7,429,000	-
Investments in associates	8	23,897,000	8,009,000
Long-term investments	7	-	10,802,000
Investment properties	9	139,603,000	-
Intangible assets	10	2,441,000	2,777,000
Office equipment and leasehold improvements	11	166,000	153,000
Deferred income tax assets	12	5,726,000	2,975,000
		<u>179,262,000</u>	<u>24,716,000</u>
<b>Total assets</b>		<u>\$ 239,689,000</u>	<u>\$ 57,030,000</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank debt	7	\$ 1,459,000	\$ -
Accounts payable and accruals	5,13	5,059,000	889,000
Long-term incentive plan-current portion	5,14	15,000	40,000
Dividends payable	5,15	2,505,000	1,094,000
Income taxes payable		786,000	18,000
Debentures interest payable	7,25	1,379,000	-
		<u>11,203,000</u>	<u>2,041,000</u>
<b>Non-current liabilities</b>			
Bank debt	7	6,298,000	-
Deferred income tax liabilities	12	1,740,000	706,000
Non-controlling interest	16	11,496,000	-
Long-term incentive plan - non-current portion	5,14	9,980,000	8,270,000
Derivative financial instruments	7	23,921,000	-
Debentures payable	7	33,756,000	-
<b>Total liabilities</b>		<u>98,394,000</u>	<u>11,017,000</u>
<b>Equity</b>			
Share capital	17	164,614,000	57,901,000
Contributed surplus		1,377,000	1,190,000
Accumulated other comprehensive income		1,014,000	-
Deficit		<u>(25,710,000)</u>	<u>(13,078,000)</u>
<b>Total equity</b>		<u>141,295,000</u>	<u>46,013,000</u>
<b>Total liabilities and equity</b>		<u>\$ 239,689,000</u>	<u>\$ 57,030,000</u>

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

### Approved by the Board of Directors

David Berman

Michael Knowlton

Duff Scott

# Tricon Capital Group Inc.

## Consolidated Statements of Comprehensive Income (Loss)

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

	Notes	For the Year Ended	
		December 31, 2012	December 31, 2011
<b>Revenue</b>			
Contractual fees	5	\$ 9,985,000	\$ 9,132,000
General partner distributions	5	3,630,000	1,141,000
Performance fees	5	95,000	311,000
Investment income	5,8	2,594,000	(225,000)
Rental revenue	6	2,291,000	-
Revenue from homes sold		11,091,000	-
Gain on sale of investments in associates		958,000	-
Interest income	18	1,358,000	672,000
		<u>32,002,000</u>	<u>11,031,000</u>
<b>Expenses</b>			
Salaries and benefits expense	5	3,919,000	3,549,000
Short-term incentive plan	5,19	1,443,000	774,000
Long-term incentive plan	5,14	1,733,000	2,418,000
Stock compensation	5,19	986,000	635,000
Rental expense		1,069,000	-
Rental operator management fees		619,000	-
Impairment on inventory homes	6	332,000	-
Cost of homes sold	6	10,301,000	-
Professional and directors fees expense	5,19	2,035,000	1,067,000
Formation costs	20	(192,000)	589,000
Fair value adjustment on investment properties		(254,000)	-
General and administration expense	20	1,028,000	976,000
Interest expense		2,477,000	-
Net change in fair value of derivative	7	7,671,000	-
Amortization expense	10,11	1,160,000	1,313,000
Realized and unrealized foreign exchange (gain) loss		1,847,000	(349,000)
		<u>36,174,000</u>	<u>10,972,000</u>
<b>Income (loss) before non-controlling interest and income taxes</b>		<b>(4,172,000)</b>	<b>59,000</b>
Non-controlling interest fair value change	16	332,000	931,000
<b>Income (loss) before income taxes</b>		<b>(3,840,000)</b>	<b>990,000</b>
Income tax expense	12	(1,372,000)	(446,000)
<b>Net income (loss)</b>		<b>\$ (5,212,000)</b>	<b>\$ 544,000</b>
<b>Other comprehensive income</b>			
Cumulative translation reserve		1,014,000	-
<b>Comprehensive income (loss) for the year</b>		<b>\$ (4,198,000)</b>	<b>\$ 544,000</b>
<b>Basic and diluted income (loss) per share</b>	21	<b>\$ (0.19)</b>	<b>\$ 0.03</b>

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

## Tricon Capital Group Inc.

### Consolidated Statements of Changes in Equity

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

	<b>Notes</b>	<b>Share Capital</b>	<b>Contributed Surplus</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Retained Earnings (Deficit)</b>	<b>Total Equity</b>
<b>Balance at January 1, 2011</b>		\$ 57,934,000	\$ 555,000	\$ -	\$ (9,228,000)	\$ 49,261,000
Net income for the year		-	-	-	544,000	544,000
Dividends	15	-	-	-	(4,377,000)	(4,377,000)
Repurchase of common shares	17	(33,000)	-	-	(17,000)	(50,000)
Stock option expense	19	-	557,000	-	-	557,000
Phantom units	19	-	78,000	-	-	78,000
<b>Balance at December 31, 2011</b>		<u>57,901,000</u>	<u>1,190,000</u>	<u>-</u>	<u>(13,078,000)</u>	<u>46,013,000</u>
Net (loss)		-	-	-	(5,212,000)	(5,212,000)
Cumulative translation reserve		-	-	1,014,000	-	1,014,000
Dividends	15	-	-	-	(7,339,000)	(7,339,000)
Issuance of common shares, net of issuance costs of \$5,159,000	17	106,142,000	-	-	-	106,142,000
Stock option expense	19	-	265,000	-	-	265,000
Phantom units	19	571,000	(78,000)	-	(81,000)	412,000
<b>Balance at December 31, 2012</b>		<u>\$ 164,614,000</u>	<u>\$ 1,377,000</u>	<u>\$ 1,014,000</u>	<u>\$ (25,710,000)</u>	<u>\$ 141,295,000</u>

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

# Tricon Capital Group Inc.

## Consolidated Statements of Cash Flows

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

	Notes	For the Year Ended	
		December 31, 2012	December 31, 2011
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net income (loss)		\$ (5,212,000)	\$ 544,000
Adjustments for			
Non-controlling interest	16	(332,000)	(931,000)
Amortization	10, 11	1,160,000	1,313,000
DSUP expense	19	87,000	46,000
Deferred income taxes	12	(1,717,000)	(439,000)
Long-term incentive plan	14	1,685,000	2,262,000
Stock compensation expense, net of tax		1,016,000	635,000
Gain on disposal of long-term investment		(258,000)	-
Bond premium amortization / write-off		341,000	-
Accrued interest income		(122,000)	(101,000)
Accrued interest expense		1,022,000	-
Fair value adjustment on investment properties		(254,000)	-
Impairment on inventory homes		332,000	-
Net change in fair value of derivative		7,671,000	-
Investment (income) loss	5, 8	(2,594,000)	225,000
Gain on sale of investment in associates		(958,000)	-
Unrealized foreign exchange (gain) loss		410,000	(190,000)
		<u>2,277,000</u>	<u>3,364,000</u>
Changes in non-cash working capital items			
Accounts receivable		(1,447,000)	141,000
Non-controlling interest	16	-	931,000
Income tax recoverable		185,000	(185,000)
Prepaid expenses and other assets		(1,088,000)	(71,000)
Accounts payable and accruals	5, 13	4,083,000	(12,000)
Debenture interest payable		1,379,000	-
Inventory homes		(14,438,000)	-
Income taxes payable		768,000	(562,000)
		<u>(8,281,000)</u>	<u>3,606,000</u>
<b>Investing activities</b>			
Purchase of office equipment, furnitures and leasehold improvement	11	(80,000)	(23,000)
Purchase of short term investments		(10,500,000)	(9,000,000)
Purchase of long term investments		-	(10,889,000)
Placement fees	10	(757,000)	(89,000)
Investment in associates	8	(27,011,000)	(8,199,000)
Proceeds on disposal of investments in associates		14,582,000	-
Proceeds on disposal of short-term investments inclusive of interest received		19,688,000	31,156,000
Proceeds on disposal of long-term investments		6,709,000	-
Investment properties		(138,622,000)	-
Loans receivable		(7,464,000)	-
		<u>(143,455,000)</u>	<u>2,956,000</u>
<b>Financing activities</b>			
Issuance/ (repurchase) of common shares (net of issuance costs of \$5,159,000)	17	106,142,000	(50,000)
Issuance/ (repurchase) of debentures (net of issuance costs of \$2,766,000)		48,984,000	-
Vested phantom units		(339,000)	-
Proceeds from borrowing (net of financing costs)		7,689,000	-
Dividends paid	15	(5,928,000)	(4,377,000)
Non-controlling interest	16	11,745,000	-
		<u>168,293,000</u>	<u>(4,427,000)</u>
<b>Foreign exchange gain (loss) on cash</b>		<u>(244,000)</u>	<u>190,000</u>
<b>Change in cash and cash equivalents during the year</b>		16,313,000	2,325,000
<b>Cash and cash equivalents - Beginning of year</b>		22,008,000	19,683,000
<b>Cash and cash equivalents - End of year</b>		<u>\$ 38,321,000</u>	<u>\$ 22,008,000</u>
<b>Supplementary information</b>			
Income taxes paid		\$ 1,106,000	\$ 1,632,000

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

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

### 1. NATURE OF BUSINESS

Tricon Capital Group Inc. (Tricon or the Company) and its subsidiaries provide asset management services to funds managed by the Company of which the investors are high net worth individuals and institutional investors. In addition, the Company co-invests in one of its private funds and separate account business and more recently has established a U.S. single-family rental platform whereby distressed single-family homes are acquired, renovated, leased and managed through a network of local operating partners. 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. Listed below are the subsidiaries of the Company:

<b>Company Name</b>	<b>Effective date</b>
Tricon USA Inc.	December 20, 2002
2237176 Ontario Limited	May 11, 2010
Altman VII General Partnership	May 13, 2010
Altman IX General Partnership	May 13, 2010
Tri Continental Capital (1997) Ltd.	May 13, 2010
Tri Continental Capital III Ltd.	May 13, 2010
Tri Continental Capital IV Ltd.	May 13, 2010
Tri Continental Capital VI Ltd.	May 13, 2010
Tricon VIII Ltd.	May 13, 2010
Tricon X Ltd.	May 13, 2010
Tricon XI A Incentive LP	July 6, 2012
Tricon Capital GP Inc.	March 23, 2011
Tricon Capital Fund XII Co-Investment Inc.	March 23, 2011
Tricon XII Feeder GP Ltd.	May 24, 2011
Tricon Holdings USA LLC	March 20, 2012
CCR Texas Agent Inc.	April 5, 2012
CCR Texas Lender Inc.	April 5, 2012
Tricon SF Home Rental Inc.	April 30, 2012
Greater Sacramento SF Home Rental JV LLC	May 1, 2012
California SF Home Rental JV LLC	May 9, 2012
Phoenix SF Home Rental JV LLC	May 9, 2012
Tricon Holdings Canada Inc.	June 7, 2012
Florida Home Rental JV LLC	June 15, 2012
LA SF Home Rental JV LLC	November 2, 2012

Tricon became a public company on May 20, 2010 and its common shares are listed on the TSX (symbol: TCN). Tricon is domiciled in Canada.

### 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of financial statements. These consolidated financial statements have been prepared using the historical cost convention with the exception of the



# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

Company's investment properties, investments in associates and joint venture, financial liabilities classified at fair value through profit or loss, and derivative financial instruments which are recorded at fair value. The consolidated financial statements were authorized for issue on March 12, 2013 by the Board of Directors of Tricon. Subsequent to this date, the consolidated financial statements can only be amended with the Board of Directors' approval.

### **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 impairment of assets, income taxes, the estimated useful lives of long-lived assets, the estimated fair value of investment properties, non-controlling interests, investments in associates and investments in which the Company has joint control, derivative financial instruments, the determination of the long-term incentive plan accrual, the estimates used in the fair valuing of stock option grants, the determination of consolidation requirements for the funds managed by the Company, and the determination of whether the purchase of homes meet the definition of an asset acquisition or business combination.

### **Consolidation**

#### *Subsidiaries*

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the group 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. Subsidiaries are fully consolidated from the date on which control is obtained and no longer consolidated from the date on which control ceases. Inter-company transactions, balances and unrealized gains or losses on transactions between the Company and its subsidiaries are eliminated. Accounting policies of Tricon's subsidiaries have been conformed where necessary to ensure consistency to the policies adopted by the Company.

#### *Non-controlling interests*

Non-controlling interests represent equity interests in subsidiaries not attributable to the Company. The share of net assets of subsidiaries attributable to non-controlling interests is presented as a liability, as the subsidiaries are limited life entities where the non-controlling interests are considered to be "puttable instruments" because of the redemption feature in accordance with IAS 32. The non-controlling interest is measured at fair value at the end of each reporting period with such changes recognized in net income (loss).

### **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 comprise contractual fees and general partner distributions which are not contingent on the performance of the underlying funds as well as performance fees earned in respect of investment management services provided to investment funds managed by the Company. Contractual fees are recognized as services are performed and are based on a fixed percentage of

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

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. General Partner Distributions are recognized as services are performed.

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 limited partnership agreement. Contractual fees and performance fees are earned through the Company's fiduciary activities as an investment manager.

Rental revenue from operating leases is recognized on a straight-line basis over the lease term.

Revenue from the sale of inventory homes is recognized when title passes to the purchaser upon closing, wherein all proceeds are received.

### **Investments in associates and joint venture**

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 investment funds and investments held on behalf of future investment funds (warehoused investments) managed by the Company.

#### *a) General Partnership interests*

The Company holds an ownership interest in certain investment funds managed by the Company. Significant influence is exercised through the Company's general partnership interest in these investment funds. Accordingly, these interests are accounted for as investments in associates.

These ownership interests are held as part of the Company's investment portfolio and are carried on the consolidated balance sheet at fair value in accordance with the IAS 28 *Investment in Associates* exemption, which permits investments held by venture capital organizations in which they have significant influence to be excluded from the scope of IAS 28 where those investments are designated, upon initial recognition, such that they are carried at fair value with gains and losses recognized in net income (loss). The Company has elected to designate its general partnership interests at fair value.

#### *b) Warehoused investments/Joint Ventures*

Joint ventures are established through contractual arrangements that require the unanimous consent of each of the venturers regarding the ability to direct activities that significantly affect the returns of the joint arrangement.

Investments in joint ventures are held as part of the Company's investment portfolio and are carried on the consolidated balance sheet at fair value in accordance with IAS 28 *Investment in Associates* exemption, which permits investments held by venture capital organizations in which they have joint control to be excluded from the scope of IFRS 11 Joint arrangements where those investments are designated, upon initial recognition, such that they are carried at fair value with gains and losses recognized in net income (loss). The Company has elected to designate its ownership interests in its joint venture at fair value.

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

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

The Company has designated warehoused investments, over which the Company has significant influence that are held as part of the Company's investment portfolio which are recorded at fair value, consistent with the IAS 28 exemption referred to above.

The fair value of warehoused investments is determined using a discounted cash flow (DCF) model. The determination of the fair value of warehoused investments under the discounted cash flow model requires management to make significant estimates in respect of the inputs and assumptions used in the DCF, such as the discount rate and the timing and amounts of cash flows. These inputs and assumptions are regularly reviewed by management and are adjusted as required. It is possible that changes in future conditions could significantly change these inputs and assumptions and result in a material change in fair value.

### c) *Investments in limited partnerships managed by the Company*

The Company has investments in the limited partnerships managed by the Company. These investments are held through the Company's wholly-owned subsidiaries that invest in the limited partnerships as a limited partner and are recorded at fair value, consistent with the IAS 28 exemption referred to above. The investments are measured at fair value determined by the Company's proportionate ownership of the partnerships' net assets which are also recorded at fair value at the partnership level. The effect on net and comprehensive income (loss) of a 1% absolute change in the discount rates of the investments in associates is as follows:

	Discount rate Increase 1%	Discount rate Decrease 1%
Effect on net income (loss)	(\$764,000)	\$794,000

Changes in fair value of investments in associates are included in Investment income (loss) in the consolidated statements of net and comprehensive income (loss).

Disclosures of investments in associates and joint venture are made in accordance with IFRS 12, *Disclosure of Interests in Other Entities*, which governs disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities. IFRS 12 is effective for annual periods beginning on or after January 1, 2013; however, the Company early adopted this standard along with IFRS 10, IFRS 11, and IAS 28 (revised 2011) during 2011.

### **Placement fee and performance fee rights 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 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.

### **Foreign currency translation**

#### a) *Functional and presentation currency*

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 functional currency).

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

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

The consolidated financial statements are presented in Canadian dollars, which is Tricon's functional currency and the functional currency of some of its foreign operations, with the exception of the subsidiaries related to the rental strategy which is US dollars (effective Q4 2012 as commercial operations commenced and the entities were no longer considered an extension of the parent).

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).

### *b) Subsidiaries*

The results and financial position of all the subsidiaries (none of which has the currency of a hyperinflationary economy) that have 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.

On disposal of a foreign operation (that is, a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation) all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified from other comprehensive income to net 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 each financial year-end.

### **Impairment of non-financial assets**

Assets that are subject to amortization 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 to sell 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 that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

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

### Financial instruments

#### *Financial assets*

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity financial assets and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

The Company's financial assets consist of cash and cash equivalents, short-term and long-term investments, accounts receivable and loan receivable.

Cash and cash equivalents, short-term and long-term investments and accounts receivable are initially recognized at fair value and subsequently accounted for at amortized cost. Interest income is accounted for using the effective interest rate method.

The Company assesses at each financial position date whether there is objective evidence that loans and receivables are impaired. If there is objective evidence (such as significant financial difficulty of the obligor, breach of contract, or it becomes probable that the debtor will enter bankruptcy), the receivable is tested for impairment. The amount of the loss is measured as the difference between the account's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition). The carrying amount is reduced through use of an allowance account. The amount of the loss is recognized in net income (loss).

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 (loss).

#### *Financial liabilities*

Liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss or other liabilities 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 accounts payable and accruals, dividends payable, debentures interest payable, bank debt, debentures payable and derivative financial instruments.

Bank debts and debentures payable are initially recognized at fair value and subsequently accounted for at amortized cost. Interest expense is accounted for using the effective interest rate method.

The effective interest 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.

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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.

### **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.

### **Short-term investments**

Short-term investments include investments in Guaranteed Investment Certificates that mature within twelve months.

### **Long-term investments**

Long-term investments include investment in Guaranteed Investment Certificates that mature later than twelve months and corporate bonds of major Canadian financial institutions with high credit rating and maturity no longer than three years.

### **Inventory Homes**

The Company's inventory homes are purchased for sale. They are initially recorded at cost and are subsequently carried at the lower of cost and net realizable value ("NRV").

Cost includes purchase price, acquisition costs, renovation and carrying costs, property taxes, legal costs and other direct costs in bringing inventories to their saleable condition. Non-refundable commission paid to sales or marketing agents on the sale of real estate property and interest expense related to loans used to purchase inventory homes are expensed when incurred.

Net realizable value is the estimated selling price based on suggested market price from an Automated Valuation Model ("AVM") or Broker Priced Opinion ("BPO") appraisal less estimated selling costs equal to 5% of the selling price of the inventory. Appraisal was performed by an independent and accredited appraiser and majority of the properties were valued using the AVM methodology. An AVM is a tool that estimates the value of a property using market data including sales of comparable properties and price trends specific to the metropolitan area in which the property is located. In the event that a sales contract price on a home was available (i.e. property under contract but unsold as of December 31, 2012), the Company utilized the contract price in the NRV calculation.

An NRV analysis was performed on a property-by-property basis. The total impairment write-down presented in the consolidated financial statements represents the aggregate impairment adjustment for those properties in which NRV was calculated to be less than cost. For inventory homes purchased within the last week of December 2012, selling price (i.e. fair value) was assumed to be purchase price. Write-down on these homes mainly represented the 5% estimated selling expense on the inventory.

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### **Investment property**

Property that is held for rental yields or for capital appreciation or both is classified as investment property. Investment property also includes property that is being renovated or developed for future use as investment property. Investment property is measured initially at its cost, including related transaction costs as well as capital expenditures.

After initial recognition, investment property is carried at fair value. Fair value is estimated based on an AVM or BPO appraisal. The appraisals were performed by independent and accredited appraisers and majority of the properties were valued using the AVM methodology. In the event that an AVM value was not available, the Company utilized alternative valuation methods, such as applying an average price adjustment on cost based on homes with similar physical characteristics, the same zip code or located within the same region in the Company's portfolio. Changes in fair values are recognized in net income (loss). Investment properties are derecognized when they have been sold.

Expenditures subsequent to leasing are capitalized to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to Inventory Homes. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

### **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 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. 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.

Current and deferred income tax relating to items that are directly recognized in equity is recognized in equity and not in the statement of net and comprehensive income.

### **Compound financial instruments**

Compound financial instruments issued by the Company comprise convertible unsecured subordinate debentures that can be converted to share capital at the option of the holder. The

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Company may settle the conversion right in cash in lieu of the 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. Such settlement option requires the Company to record the conversion option as a financial liability at fair value at each reporting period with changes in fair value recorded in net income (loss).

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 and the number of common shares to be issued depends on the weighted average trading price of the common shares of the Company. The redemption option is recorded as a financial liability at fair value at each reporting period with changes in fair value recorded in net income (loss).

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 the redemption options are considered to be inter-related 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.

### **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 re-measured at fair value with the resulting gain or loss reflected in net income (loss). Derivatives are valued using model calibration. 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. Examples of inputs that may be unobservable include volatility and credit spreads.

### **Fair value estimation**

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

The following describes the categories within the fair value hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly (Level 2).
- Inputs for the asset or liability that are not based on observable market data (Level 3).

The Company's derivative financial instruments are classified within Level 2.

The carrying value of loans and receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments.



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### 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 (loss) 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.

Properties leased to third parties under operating leases are included in investment property in the statement of financial position.

### 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.

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

### Earnings (loss) per share

#### a) *Basic*

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 reporting 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.

#### b) *Diluted*

The Company considers the effects of stock options and convertible debentures in calculating diluted earnings per share. Diluted earnings (loss) per share is calculated by adjusting net income (loss) and weighted average number of shares based on assumption of conversion of all potential dilutive shares on a weighted basis from the date the options vest and from the conversion date of the debentures to the balance sheet date. Conversion date of the debenture units was assumed to be the later of the beginning of reporting period or closing date in accordance with IAS 33.

### 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.

### Phantom unit plan

The Company accounts for its phantom unit plan by calculating the fair value of the units as of the grant date using the formula as defined in the Phantom Unit Plan. The Fair Market Value is defined

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as the volume-weighted average trading price of the Company's common shares on the TSX for the five trading days immediately preceding grant date. This fair value of the units is recognized as stock compensation cost over the vesting period of the units.

### 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 a 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 participants' rights in accordance with IAS 19.

### Operating Segments

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The Company has determined that its chief operating decision-makers are the chief executive officer (CEO) of the Company and its president.

### Future accounting requirements

On May 12, 2011 the IASB issued IFRS 13, *Fair Value Measurement*. IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company did not adopt this standard as of December 31, 2012. Management is in the process of determining the impact of this standard to the Company.

On June 16, 2011 the IASB issued an amended version of IAS 19, *Employee Benefits*, effective for annual periods beginning on or after January 1, 2013. The Company did not adopt this standard as of December 31, 2012. Management is in the process of determining the impact of this standard to the Company.

On June 16, 2011 the IASB published amendments to IAS 1 Presentation of Financial Statements. The amendments to IAS 1 retain the 'one or two statement' approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements which may be 'recycled' (e.g. cash-flow hedging, foreign currency translation), and those elements that will not (e.g. fair value through OCI items under IFRS 9). Management is in the process of determining the impact of this standard to the Company.

On November 9, 2009 the IASB issued the first part of IFRS 9 *Financial Instruments* which covers the classification and measurement of financial assets that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit or loss. IFRS 9 is effective

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for annual periods beginning on or after January 1, 2015. The Company did not adopt this standard as of December 31, 2012. Management is in the process of determining the impact of this standard to the Company.

On October 31, 2012 the IASB published an Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27), providing an exception to the consolidation requirements in IFRS 10 for investment entities. The amendments are effective from 1 January 2014 with early adoption permitted. The Company did not adopt this standard as of December 31, 2012. Management is in the process of determining the impact of this standard to the Company.

### 3. FINANCIAL RISK MANAGEMENT

The Company's activities expose it to certain financial risks during or at the end of the reporting period. Financial risk comprises market risk (including interest rate risk and foreign currency risk), credit risk and liquidity risk.

#### Financial risk factors

##### a) *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. The Company's market risks arise from open positions in (a) foreign currencies and (b) interest-bearing assets and liabilities, to the extent that these are exposed to general and specific market movements.

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 rate 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's exposure to interest rate risk is limited due to the short-term nature of the Company's financial instruments with the exception of the loans receivable, long-term investments, bank debt, derivative financial instruments and convertible debentures which are discussed in note 7. 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 other than the long-term investments, bank debt, derivative financial instruments and debentures would not be significant to the Company's operations. None of the Company's debt has variable interest rates as of December 31, 2012, and consequently Tricon is not exposed to cash flow interest rate risk. In addition, bank debt and convertible debentures are carried at amortized cost and therefore, the Company is not exposed to fair value interest rate risk. Demand facilities are subjected to variable interest rates. Consequently, outstanding balances from demand facilities are exposed to fair value interest rate risk. As of December 31, 2012, the Company did not incur interest expense on the outstanding demand facility balances and hence, was not exposed to fair value interest rate risk.

##### Foreign currency risk

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 as well as rental operations and inventories held in the US (United States of America). A one percent increase and decrease in the US dollar exchange rate would result in approximately \$1,667,000 and (\$1,674,000) movement,

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respectively, in unrealized foreign exchange income (loss) in the income statement. The Company manages foreign currency risk by matching its principal cash outflows to the currency in which the principal cash inflows (such as rental revenue) are denominated. The Company may use derivatives to hedge foreign currency risks.

The tables below summarize the Company's exposure to foreign currency risk arising from financial instruments held outside of USD functional currency entities at December 31, 2012 and 2011. The Company's financial assets and liabilities are included in the table categorized by currency at their carrying amount.

### As at December 31, 2012

	CAD	USD	Total
<b>Financial assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 27,316,000	\$ 11,005,000	\$ 38,321,000
Short-term investments	4,094,000	-	4,094,000
Accounts receivable	822,000	1,404,000	2,226,000
<i>Non-current assets</i>			
Loan receivable	-	7,429,000	7,429,000
Investment in associates	5,827,000	18,070,000	23,897,000
<b>Total financial assets</b>	<b>38,059,000</b>	<b>37,908,000</b>	<b>75,967,000</b>
<b>Financial liabilities</b>			
<i>Current liabilities</i>			
Accounts payable and accruals	2,549,000	2,510,000	5,059,000
Dividend payable	2,505,000	-	2,505,000
Debentures interest payable	1,379,000	-	1,379,000
<i>Non-current liabilities</i>			
Debentures payable	51,750,000	-	51,750,000
<b>Total financial liabilities</b>	<b>58,183,000</b>	<b>2,510,000</b>	<b>60,693,000</b>

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As at December 31, 2011	CAD	USD	Total
<b>Financial assets</b>			
<i>Current assets</i>			
Cash and cash equivalents	\$ 13,398,000	\$ 8,610,000	\$ 22,008,000
Short-term investments	9,188,000	-	9,188,000
Accounts receivable	779,000	-	779,000
<i>Non-current assets</i>			
Loan receivable	-	-	-
Investment in associates	168,000	7,841,000	8,009,000
Long-term investments	10,802,000	-	10,802,000
<b>Total financial assets</b>	<b>34,335,000</b>	<b>16,451,000</b>	<b>50,786,000</b>
<b>Financial liabilities</b>			
<i>Current liabilities</i>			
Accounts payable and accruals	\$ 874,000	\$ 15,000	\$ 889,000
Dividend payable	1,094,000	-	1,094,000
<b>Total financial liabilities</b>	<b>1,968,000</b>	<b>15,000</b>	<b>1,983,000</b>

### b) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company has no significant concentrations of credit risk. Credit risk arises from cash and cash equivalents held at banks, accounts receivable, short-term and long-term investments and loans receivable.

The Company's cash and cash equivalents, short-term and long-term investments are held by financial institutions with a minimum credit rating of AA. The Company's receivables consist primarily of contractual fees and performance fees that are receivable from investment funds managed by the Company. Capital available at the investment funds' level mitigates the credit risk of the Company's receivables. The Company mitigates the credit risk on loans receivable by ensuring a comprehensive due diligence process is conducted on each loan prior to funding and actively monitoring the loan portfolio and initiating recovery procedures when required.

Credit risk related to the rental operations arises from the possibility that tenants may experience financial difficulty and be unable to fulfill their lease term commitments. The risk is mitigated by relatively short lease term (12 months), requirement for tenants to provide a security deposit upon lease commencement as well as the background check performed on each tenant to assess their creditworthiness. In addition, the Florida properties managed by Section 8 Housing Authority which has strict controls over eligibility of participants.

### c) Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities. Prudent liquidity risk management implies maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities. The convertible debenture newly issued in Q3 2012 requires the Company to make cash interest payments semi-annually. The bank debt obtained requires the Company to make monthly interest payments. The Company uses the long-

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term borrowings to finance its U.S. single-family home rental strategy. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational and financing costs. Liquidity risk from the convertible debenture is mitigated by the Company's option, under the terms of the debenture, to settle the obligation with shares. The bank debt exposes the Company to relatively higher liquidity risk, but this risk is mitigated by the rental cash inflow received from the underlying single-family residential units financed by the bank debt.

The maturity analysis of financial instruments is as follows:

<b>As at December 31, 2012</b>	<b>Demand and less than 1 year</b>	<b>From 1 to 3 years</b>	<b>From 3 to 5 years</b>	<b>Later than 5 years</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	\$ 38,321,000	\$ -	\$ -	\$ -	\$ 38,321,000
Short-term investments	4,094,000	-	-	-	4,094,000
Accounts receivable	2,226,000	-	-	-	2,226,000
Loan receivable	-	2,781,000	4,648,000	-	7,429,000
Investment in associates	-	1,716,000	22,181,000	-	23,897,000
<b>Liabilities</b>					
Accounts payable and accruals	5,059,000	-	-	-	5,059,000
Long-term incentive plan	15,000	-	9,980,000	-	9,995,000
Dividend payable	2,505,000	-	-	-	2,505,000
Debentures interest payable	1,379,000	-	-	-	1,379,000
Bank debt	1,459,000	-	-	6,298,000	7,757,000
Non-controlling interest	-	-	-	11,496,000	11,496,000
Debentures payable	-	-	51,750,000	-	51,750,000
<b>As at December 31, 2011</b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 22,008,000	\$ -	\$ -	\$ -	\$ 22,008,000
Short-term investments	9,188,000	-	-	-	9,188,000
Accounts receivable	779,000	-	-	-	779,000
Investment in associates	-	-	8,009,000	-	8,009,000
Long-term investments	-	10,802,000	-	-	10,802,000
<b>Liabilities</b>					
Accounts payable and accruals	889,000	-	-	-	889,000
Long-term incentive plan	40,000	-	8,270,000	-	8,310,000
Dividend payable	1,094,000	-	-	-	1,094,000

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### d) Other price risk

The key assumptions in determining the fair value of the non-controlling interest are the fair value of the investment properties and the net realizable value of inventory homes. Assuming the fair value of the investment properties and the net realizable value of the inventory homes had increased by 1%, the fair value of the non-controlling interest would have increased by \$112,000 with all other variables held constant. Assuming the fair value of the investment properties and the net realizable value of the inventory homes had decreased by 1%, the fair value of the non-controlling interest would have decreased by \$113,000.

### 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. The Company's capital consists of debt, including bank debt, convertible debentures, demand credit facility 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, 2012, the Company had no externally imposed restrictions or covenants on capital.

## 4. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

	<u>December 31, 2012</u>	<u>December 31, 2011</u>
Bank operating accounts	\$ 8,657,000	\$ 5,480,000
High Interest Savings Account	-	5,592,000
CAD Interest Savings Account	27,164,000	4,317,000
USD Interest Savings Account	2,500,000	6,619,000
	<u>\$ 38,321,000</u>	<u>\$ 22,008,000</u>

### Short-Term Investments

	<u>Rate</u>	<u>Maturity</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>
1-year GIC	1.55%	July 3, 2012	\$ -	\$ 5,000,000
1-year GICs	1.75%	November 21, 2012	-	4,000,000
1-year GICs	2.10%	November 18, 2013	4,000,000	-
Accrued interest			94,000	188,000
			<u>\$ 4,094,000</u>	<u>\$ 9,188,000</u>

## 5. RELATED PARTY TRANSACTIONS AND BALANCES

The Company leases office space from Mandukwe, a company that is owned by a director of Tricon. During the year ended December 31, 2012, the Company paid \$96,000 in rental payments, including common costs to Mandukwe (2011 - \$92,000).

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### Key management compensation

Key management includes directors and the "Named Executive Officers" who are 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 are based on employment agreements and are as follows:

	For the Year Ended December 31,	
	2012	2011
Salaries, benefits and STIP (note 19)	\$ 2,564,000	\$ 2,421,000
Stock option expense (note 19)	139,000	324,000
Phantom units	-	41,000
LTIP paid	35,000	129,000
LTIP accrued (note 14)	658,000	1,660,000
	<u>3,396,000</u>	<u>4,575,000</u>
Director's compensation (note 19)	247,000	168,000
	<u>\$ 3,643,000</u>	<u>\$ 4,743,000</u>

### Transactions with related parties

The following table summarizes revenue based on contractual arrangements from investment funds managed by the Company, which are considered related parties as the Company is the general partner of the investment funds, as well as income (loss) from partnerships in which the Company invests:

	For the Year Ended December 31,	
	2012	2011
Contractual fees	\$ 9,985,000	\$ 9,132,000
General Partner distributions (A)	3,630,000	1,141,000
Performance fees	95,000	311,000
Investment income	2,594,000	(225,000)
Gain on sale of investments		
in associates (note 8)	958,000	-
Interest income (note 18)	792,000	75,000
	<u>\$ 18,054,000</u>	<u>\$ 10,434,000</u>

- A. The Company received distributions from an investment fund of \$1,631,000 in 2011 of which \$490,000 was eliminated on consolidation as that investment fund was consolidated until June 15, 2011.
- B. All transactions were measured in accordance with the amount as per the contractual agreements.

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### Balances arising from transactions with related parties

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Receivables from related parties included in accounts receivable		
Contractual fees receivable from investment funds managed by the Company	\$ 612,000	\$ 427,000
Performance fees receivable from investment funds managed by the Company	-	11,000
Other receivables	88,000	75,000
Loan receivable from CCR Texas Holdings LP (note 7)	7,429,000	-
Investment property seeded into partnerships by local operators	23,872,000	-
Long Term Incentive Plan (current and non-current portion)	9,995,000	8,310,000
Short Term Incentive Plan	1,392,000	774,000
Dividends payable to employees and associated corporations	397,000	407,000
Other payables to related parties included in accounts payable and accruals	108,000	391,000

Revenues and receivables from related parties relate to contractual and performance fees for services provided by the Company. The receivables are unsecured and are non-interest bearing. There are no provisions recorded against receivables from related parties at December 31, 2012 (December 31, 2011 - \$nil).

The Company and its founding shareholders have indemnified the limited partners of certain funds the Company manages. Refer to note 26 for further details.

## 6. INVENTORY HOMES

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Opening balance - beginning of year	\$ -	\$ -
Acquisitions of inventory homes	23,165,000	-
Rehabilitation costs	1,425,000	-
Disposition of inventory homes	(9,792,000)	-
Unrealized foreign exchange gain (A)	78,000	-
Impairment on inventory homes (B)	(332,000)	-
Closing balance - end of year	<u>\$ 14,544,000</u>	<u>\$ -</u>

(A) The gain resulted from the difference of the year end and the income statement average foreign exchange rates at which the inventory homes were disposed.

(B) Inventory homes must be carried at the lower of cost and net realizable value which resulted in impairment on inventory homes arising mainly from the further requirement to provide for selling expense on the ultimate sale of the homes

As of December 31, 2012, none of the inventories were pledged as collateral.

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

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

### Inventory sales

	For the Year Ended December 31,	
	2012	2011
Home sales revenue	\$ 11,091,000	\$ -
Cost of home sales	(9,792,000)	-
Selling expenses	(509,000)	-
Income from home sales	<u>\$ 790,000</u>	<u>\$ -</u>

## 7. FINANCIAL INSTRUMENTS

### Loans receivable

On April 9, 2012, the Company made a loan commitment of US\$9 million through CCR Texas Lender, Inc., a wholly owned subsidiary of Tricon Capital Group Inc. to CCR Texas Holdings LP, a single purpose entity formed by the Company, a large Canadian institutional investor and The Johnson Development Corporation, for the purposes of acquiring and developing the Cross Creek Ranch Master Planned Community in Houston Texas ("Cross Creek").

As of December 31, 2012, the Company had a loan receivable from CCR Texas Holdings LP of US\$7,468,000 (\$7,429,000 Canadian equivalent) net of a US\$167,000 commitment fee received, bearing a 12% interest rate, compounding monthly, maturing on December 31, 2019. The accrued interest was US\$721,000 (\$719,000 Canadian equivalent) as of December 31, 2012 (\$nil - December 31, 2011) with an effective interest rate of 12.9%.

### Long-term investments

On May 25, 2011 the Company bought corporate bonds of a Canadian chartered bank, with a face value of \$6,450,000, at a premium of \$439,000. The bonds had an interest rate of 4.95% per annum with a yield of 2.3% payable semi-annually and mature on January 23, 2014. The bond was sold on September 11, 2012 for proceeds of \$6,754,000. The Company realized a gain of \$33,000 which is recognized as part of Investment Income in net income (loss).

### Bank debt

At December 31, 2012, the Company has bank debt outstanding (net of transaction costs) of \$7,757,000 (2011 - \$nil) consisting of \$6,298,000 under the Greater Sacramento facility and \$1,459,000 under the California facility, as described below.

#### *Greater Sacramento*

On August 6, 2012, the Company's partnership in Greater Sacramento entered into a bank credit facility agreement in the amount of US\$10 million for the purpose of financing the acquisition and renovation of single family residential units. As of December 31, 2012, US\$342,000 (\$340,000 Canadian equivalent) of transaction fees were incurred on the bank debt. The loan balance is presented on the financial statements net of transaction fees incurred and is amortized at an effective interest rate of 5.75%. The loan balance before transaction cost is US\$6.7 million (\$6.7 million Canadian equivalent).

Interest-only payments are required on the bank debt at 5.00% per annum until March 1, 2018, thereafter the rate changes to the greater of 5.00% or six-month LIBOR plus 350 basis points and include principal repayments to maturity on March 1, 2028. As of December 31, 2012, the

## Tricon Capital Group Inc.

### Notes to Consolidated Financial Statements

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

partnership incurred US\$76,000 (\$76,000 Canadian equivalent) of interest expense and transaction fee amortization on the outstanding loan balance.

Monthly payments of principal and interest commenced on October 1, 2012.

The loan agreement outlines the debt service covenant ratio, defined as the annualized net operating income from rental homes divided by the total outstanding principal and interest payable calculated at a fixed rate of 5.00%. As of December 31, 2012, the Company's partnership is in compliance with the covenant and other undertakings outlined in the loan agreement.

The facility is secured by the Company's single-family rental investment properties that have been approved by the lender based on the terms of the borrowing agreement.

#### *California (McKinley)*

On December 17, 2012, the Company's partnership in the Bay Area of California entered into an unsecured demand credit facility agreement in the amount of US\$5 million (\$5 million Canadian equivalent) for the purpose of financing the acquisition and renovation of single family residential units. As of December 31, 2012, US\$33,000 (\$32,000 Canadian equivalent) of transaction fees were incurred on the bank debt. The Company's partnership made the first draw on the demand facility on December 27, 2012 in the amount of US\$1.5 million (\$1.5 million Canadian equivalent). The loan balance before transaction cost is US\$1.5 million (\$1.5 million Canadian equivalent).

Interest-only payments are required on the bank debt at 4.25% per annum beginning February 1, 2013 until February 1, 2014, thereafter the monthly payments are fixed at US\$26,000 (\$26,000 Canadian equivalent) and the portion allocated as interest is calculated based on Wall Street Journal Prime Rate plus 1.5%. On January 1, 2018, the final lump-sum payment will be made in the amount of US\$4.7 million (\$4.7 million Canadian equivalent) and the portion allocated as interest is calculated based on Wall Street Journal Prime Rate plus 1.5%. As of December 31, 2012, the Company's partnership did not incur any interest expense and transaction fee amortization on the outstanding loan balance.

The loan agreement outlines working capital requirements and debt service coverage ratios for the loan portfolio and operator. As of December 31, 2012, the Company's partnership is in compliance with the covenant and other undertakings outlined in the loan agreement.

The maximum facility allowable loan amount is calculated based on the lesser of 65% of the appraised home value completed by a bank approved appraiser, or acquisition plus rehabilitation costs for each property located in defined counties. Properties located in other counties cannot make up more than 25% of the total portfolio and the allowable loan advanced on such properties would be lesser of 50% of appraised value or acquisition plus rehabilitation costs.

The fair value of borrowings approximated the carrying value as of December 31, 2012.

#### *Royal Bank of Canada*

On November 7, 2012, the Company entered into a 3-year term facility and demand facility with the Royal Bank of Canada for an operating line of \$15 million. The interest rate ranges between prime plus 2% and prime plus 2.5% depending on certain quarterly financial covenants. No funds were drawn by the Company as of December 31, 2012.

Fees paid on the establishment of the loan facility are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee

# Tricon Capital Group Inc.

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

is deferred until the draw-down occurs. As it is within management's expectation to utilize the full capacity of the facility, the \$56,000 commitment fee paid has been capitalized as prepaid expenses as of December 31, 2012 and will be recognized as funds are drawn.

### Convertible debenture

The Company issued 517,500 6.375% convertible debentures at \$1,000 per unit for a par value of \$51,750,000 on July 30, 2012. The debentures mature on August 31, 2017 at their nominal value of \$51.8 million or can be converted into shares at the holder's option at any time prior to the close of business on the earlier of maturity or redemption date at the conversion price of \$6.00 or at a rate of 166.67 shares per \$1,000 debentures owned.

The Company may settle the conversion right in cash in lieu of common shares unless the holder has expressly indicated that they do not wish to receive cash. The amount of cash the Company will have to deliver to the holder is determined by multiplying the weighted average trading price of the common shares on TSX during the 20 consecutive trading days by the number of common shares into which the elected amount would then be convertible.

The convertible debenture units outstanding are redeemable at the option of the Company on or after August 31, 2015 and prior to August 31, 2016 provided that the current market price of the common shares of the Company on the TSX on the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after August 31, 2016 and prior to the maturity date, the Company may elect to redeem the outstanding debentures in whole or part at a price equal to the principal amount plus accrued and unpaid interest.

The Company has an option to settle the redemption right by delivering the number of common shares determined by dividing the principal amount of the convertible debentures by 95% of the weighted average trading price of the common shares on TSX during the 20 consecutive trading days ending five trading days preceding the date fixed for redemption.

The convertible debentures recognized in the consolidated balance sheet are calculated as follows:

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
Face value of convertible debentures issued on July 30, 2012	\$ 51,750,000	-
Less: Transaction costs	(2,751,000)	-
Embedded derivative options	(16,250,000)	-
Liability component on initial recognition on July 30, 2012	32,749,000	-
Less: Additional transaction costs in Q4 2012	(15,000)	-
Interest expense (note 25)	2,401,000	-
Interest paid	-	-
Debentures and Interest Payable at December 31, 2012	<u>\$ 35,135,000</u>	<u>-</u>

The fair value of the liability component of the convertible debentures at December 31, 2012 amounted to \$36,109,000 (\$nil – December 31, 2011).

### Derivative financial instruments

The conversion and the redemption options of the convertible debentures are combined pursuant to IAS 39 and both options are measured at fair value at each reporting period using model calibration. The fair value of the derivative financial instruments was \$23,921,000 as of December

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31, 2012 resulting in a loss on the derivative financial instruments of \$7,671,000 for the year ended December 31, 2012.

### 8. INVESTMENT IN ASSOCIATES AND JOINT VENTURE

		<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Tricon XII	(a)	\$ 5,827,000	\$ 168,000
Tricon XI	(c)	11,397,000	-
Cross Creek	(b)	6,614,000	-
TNHC	(d)	-	7,797,000
General partner interests	(e)	59,000	44,000
		<u>\$ 23,897,000</u>	<u>\$ 8,009,000</u>

- (a) The Company committed \$20 million through its wholly-owned subsidiary Tricon Capital Fund XII Co-Investment Inc. to Tricon XII Limited Partnership ("Tricon XII") representing a 29% ownership interest at inception, March 23, 2011. On June 15, 2011, Tricon XII had a second closing, which reduced the Company's ownership interest in Tricon XII from 29% to 14%. Therefore, on June 15, 2011 the Company commenced accounting for this investment at fair value. On March 22, 2012, Tricon XII had a closing which decreased the Company's interest to 10.8%. On May 11, 2012, Tricon XII had an additional closing which further decreased the Company's interest to 10.2%.

In accordance with the limited partnership agreement between Tricon XII limited partners, a portion of net income was distributed to the general partner, Tricon Capital GP Inc., a wholly-owned subsidiary of the Company. As of December 31, 2012, the Company has contributed \$6.0 million to Tricon XII. The fair value of the Company's investment in Tricon XII was \$5.8 million as of December 31, 2012 (\$0.2 million – December 31, 2011). The fair value adjustment of \$203,000 was included in Investment Income in net income (loss) for the year ended December 31, 2012.

- (b) On April 9, 2012, the Company made an equity commitment, of US\$5.4 million of which US\$4.7 million (\$4.7 million Canadian equivalent) was outstanding as of December 31, 2012, which represents a 10% interest through CCR Texas Equity I LP a wholly owned partnership formed by Tricon, to CCR Texas Holdings LP a single purpose entity formed by the Company, a large Canadian institutional investor and The Johnson Development Corporation for the purposes of acquiring and developing the Cross Creek project. The fair value of the Company's equity investment in Cross Creek was US\$6.6 million as of December 31, 2012 (\$6.6 million Canadian equivalent) with a fair value adjustment of US\$1.9 million (\$1.9 million Canadian equivalent) included in Investment income in net income (loss).
- (c) The Company committed \$25 million through its wholly-owned subsidiary Tricon Holdings USA LLC to Tricon XI A Limited Partnership ("Tricon XI") representing a 20% ownership interest at inception, July 6, 2012. As of December 31, 2012, the Company has contributed US\$11.1 million (\$11.1 million Canadian equivalent) into Tricon XI. The fair value of the Company's investment in Tricon XI was US\$11.5 million (\$11.4 million Canadian equivalent) as of December 31, 2012 (\$nil – December 31, 2011) with a fair value adjustment of US\$319,000 (\$317,000 Canadian equivalent) included in Investment income in the consolidated statements of net and comprehensive income (loss).
- (d) The Company transferred two warehoused investments, The New Home Company ("TNHC") and Cadiz Riverfront Holdings LP ("Dallas Project"), to Tricon XI on September 5, 2012 for total

# Tricon Capital Group Inc.

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proceeds of US\$10.5 million (\$10.4 million Canadian equivalent) and US\$4.3 million (\$4.2 million Canadian equivalent), respectively. The gain of US\$979,000 (\$958,000 Canadian equivalent) from these projects, respectively, is recognized in net income (loss).

- (e) The remaining investment of \$59,000 represents the Company's general partner interests in the respective Tricon funds.

Pursuant to the disclosure requirements of IFRS 12, the following represents the aggregated summarized financial information of the various associates and joint venture with whom the Company has investments. The summarized financial information related to Tricon XI has been prepared in accordance with US GAAP and financial information related to Tricon XII LP and CCR Texas Equity LP has been prepared in accordance with Canadian Accounting Standards for Private Enterprises.

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Current assets	1,797,000	6,069,000
Non-current assets	159,595,000	35,699,000
Current liabilities	59,000	2,731,000
Non-current liabilities	611,000	9,543,000

	<u>For the Year Ended December 31,</u>	
	<u>2012</u>	<u>2011</u>
Revenue	9,869,000	30,796,000
Profit or (loss) for the year	8,594,000	(1,563,000)
Comprehensive income	8,594,000	(1,653,000)

There are no restrictions on the ability of associates to transfer funds to the Company in the form of cash dividends or repayment of loans.

## 9. INVESTMENT PROPERTIES

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Opening balance - beginning of year	\$ -	\$ -
Acquisitions of investment property	131,551,000	-
Capital expenditure on investment properties	8,511,000	-
Effect of translation to presentation currency	(713,000)	-
Fair value adjustment	254,000	-
Closing balance - end of year	<u>\$ 139,603,000</u>	<u>\$ -</u>

As of December 31, 2012, US\$6,662,000 (\$6,628,000 Canadian equivalent) of investment properties) were pledged as collateral (\$nil – December 31, 2011) for the bank debt outstanding (note 7). The Company's rental partnership is prohibited from selling or transferring of assets pledged as collateral without written consent from the lender.

# Tricon Capital Group Inc.

## Notes to Consolidated Financial Statements

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

### 10. INTANGIBLE ASSETS

	<u>Placement fees</u>	<u>Rights to performance fees</u>	<u>Total</u>
<b>Year ended December 31, 2011</b>			
Opening Net book value	3,276,000	653,000	3,929,000
Additions	89,000	-	89,000
Amortization expense	<u>(1,160,000)</u>	<u>(81,000)</u>	<u>(1,241,000)</u>
Net book value	<u>2,205,000</u>	<u>572,000</u>	<u>2,777,000</u>
<b>As at December 31, 2011</b>			
Cost	8,605,000	707,000	9,312,000
Accumulated amortization	<u>(6,400,000)</u>	<u>(135,000)</u>	<u>(6,535,000)</u>
Net book value	<u>\$ 2,205,000</u>	<u>\$ 572,000</u>	<u>\$ 2,777,000</u>
<b>Year ended December 31, 2012</b>			
Opening Net book value	2,205,000	572,000	2,777,000
Additions	757,000	-	757,000
Amortization expense	<u>(1,012,000)</u>	<u>(81,000)</u>	<u>(1,093,000)</u>
Net book value	<u>1,950,000</u>	<u>491,000</u>	<u>2,441,000</u>
<b>As at December 31, 2012</b>			
Cost	9,362,000	707,000	10,069,000
Accumulated amortization	<u>(7,412,000)</u>	<u>(216,000)</u>	<u>(7,628,000)</u>
Net book value	<u>\$ 1,950,000</u>	<u>\$ 491,000</u>	<u>\$ 2,441,000</u>

There were no impairment charges of Placement fees and Rights to performance fees in the year ended December 31, 2012 and December 31, 2011.

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## Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

### 11. OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS

	<u>Furniture</u>	<u>Office equipment</u>	<u>Computer equipment</u>	<u>Leasehold improvements</u>	<u>Total</u>
<b>Year ended December 31, 2011</b>					
Opening Net book value	13,000	14,000	37,000	138,000	202,000
Additions	6,000	-	17,000	-	23,000
Amortization expense	<u>(6,000)</u>	<u>(11,000)</u>	<u>(29,000)</u>	<u>(26,000)</u>	<u>(72,000)</u>
Net book value	<u>13,000</u>	<u>3,000</u>	<u>25,000</u>	<u>112,000</u>	<u>153,000</u>
<b>As at December 31, 2011</b>					
Cost	152,000	58,000	468,000	426,000	1,104,000
Accumulated amortization	<u>(139,000)</u>	<u>(55,000)</u>	<u>(443,000)</u>	<u>(314,000)</u>	<u>(951,000)</u>
Net book value	<u>\$ 13,000</u>	<u>\$ 3,000</u>	<u>\$ 25,000</u>	<u>\$ 112,000</u>	<u>\$ 153,000</u>
<b>Year ended December 31, 2012</b>					
Opening Net book value	13,000	3,000	25,000	112,000	153,000
Additions	3,000	9,000	26,000	42,000	80,000
Amortization expense	<u>(7,000)</u>	<u>(3,000)</u>	<u>(30,000)</u>	<u>(27,000)</u>	<u>(67,000)</u>
Net book value	<u>9,000</u>	<u>9,000</u>	<u>21,000</u>	<u>127,000</u>	<u>166,000</u>
<b>As at December 31, 2012</b>					
Cost	155,000	67,000	494,000	468,000	1,184,000
Accumulated amortization	<u>(146,000)</u>	<u>(58,000)</u>	<u>(473,000)</u>	<u>(341,000)</u>	<u>(1,018,000)</u>
Net book value	<u>9,000</u>	<u>9,000</u>	<u>21,000</u>	<u>127,000</u>	<u>166,000</u>

There were no impairment charges in the year ended December 31, 2012 and December 31, 2011.

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## Tricon Capital Group Inc.

Notes to Consolidated Financial Statements

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### 12. INCOME TAXES

	For the Year Ended December 31,	
	2012	2011
Current income tax		
Current income tax (expense) on income for the year	\$ (1,989,000)	\$ (885,000)
Adjustments relating to prior years	82,000	-
	<u>(1,907,000)</u>	<u>(885,000)</u>
Deferred taxes		
Origination and reversal of temporary differences	638,000	315,000
Adjustments relating to prior years	(133,000)	11,000
Impact of change in effective rates	30,000	113,000
	<u>535,000</u>	<u>439,000</u>
Income tax (expense) recovery	<u>\$ (1,372,000)</u>	<u>\$ (446,000)</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:

	For the Year Ended December 31,	
	2012	2011
Income (loss) before income taxes	\$ (3,840,000)	\$ 990,000
Combined statutory federal and provincial income tax rate	26.50%	28.25%
Expected income tax (expense) recovery	1,018,000	(280,000)
Tax rate differential (foreign tax rates)	(254,000)	(57,000)
Tax effects of		
Permanent differences	(2,218,000)	(231,000)
Change in effective tax rates	30,000	113,000
Adjustments relating to prior periods	(51,000)	11,000
Other	103,000	(2,000)
Income tax (expense) recovery	<u>\$ (1,372,000)</u>	<u>\$ (446,000)</u>

Permanent differences of \$2,218,000 relate to non-deductible foreign currency and embedded derivative changes of \$1,787,000 with the balance of \$431,000 related to other permanent differences (2011 - \$nil and \$231,000 respectively).

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## Notes to Consolidated Financial Statements

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The analysis of deferred tax assets and deferred tax liabilities is as follows:

	December 31, 2012	December 31, 2011
Deferred Tax Assets:		
- Deferred tax asset to be recovered after more than 12 months	4,898,000	2,449,000
- Deferred tax asset to be recovered within 12 months	828,000	526,000
Total Deferred Tax Assets	<u>5,726,000</u>	<u>2,975,000</u>

Deferred Tax Liabilities:		
- Deferred tax liabilities reversing after more than 12 months	1,740,000	353,000
- Deferred tax liabilities reversing within 12 months	-	353,000
Total Deferred Tax Liabilities	<u>1,740,000</u>	<u>706,000</u>

The movement of the deferred tax account is as follows:

Difference between Deferred Tax Assets and Deferred Tax Liabilities:		
Opening balance	2,269,000	1,830,000
Credit (charge) to the statement of net and comprehensive income	535,000	439,000
Credit to equity	1,182,000	-
Closing balance	<u>3,986,000</u>	<u>2,269,000</u>

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

<u>Deferred Tax Assets</u>	Issuance	Long-term	Deferred	Partnership	Debentures	Other	Total
	costs	incentive plan	placement	Interest			
		accrual	fees				
At January 1, 2011	1,380,000	1,512,000	(40,000)	-	-	37,000	2,889,000
Addition/(reversal)	(322,000)	566,000	8,000	(337,000)	-	172,000	87,000
At December 31, 2011	1,057,000	2,078,000	(32,000)	(337,000)	-	209,000	2,975,000
Addition/(reversal)	1,066,000	571,000	(17,000)	353,000	948,000	(170,000)	2,751,000
At December 31, 2012	<u>2,123,000</u>	<u>2,649,000</u>	<u>(49,000)</u>	<u>16,000</u>	<u>948,000</u>	<u>39,000</u>	<u>5,726,000</u>

<u>Deferred Tax Liabilities</u>	Deferred	Net	Investment	Formation	Total	
	placement	operating				
	fees	losses	properties	Inventories	costs	
At January 1, 2011	1,059,000	-	-	-	-	1,059,000
Addition/(reversal)	(353,000)	-	-	-	-	(353,000)
At December 31, 2011	706,000	-	-	-	-	706,000
Addition/(reversal)	(15,000)	(781,000)	2,026,000	(128,000)	(68,000)	1,034,000
At December 31, 2012	<u>691,000</u>	<u>(781,000)</u>	<u>2,026,000</u>	<u>(128,000)</u>	<u>(68,000)</u>	<u>1,740,000</u>

No deferred tax has been provided for unremitted earnings of the U.S. subsidiaries as the Company is in a position to control the timing of the remittance of these earnings and it is probable that these earnings will be employed in the business operations of these subsidiaries for the foreseeable future. The aggregate amount of unremitted earnings for which deferred tax liabilities have not been recognized totaled approximately \$2,170,000 (2011: \$1,657,000).

# Tricon Capital Group Inc.

Notes to Consolidated Financial Statements

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## 13. ACCOUNTS PAYABLE AND ACCRUALS

	<u>December 31,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Accounts payable and accruals	\$ 1,391,000	\$ 776,000
Payables on rental portfolio including tenant deposits	2,276,000	-
STIP (note 19)	<u>1,392,000</u>	<u>113,000</u>
	<u>\$ 5,059,000</u>	<u>\$ 889,000</u>

## 14. LONG-TERM INCENTIVE PLAN ("LTIP")

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 established prior to May 20, 2010 is fully vested. For future funds, the employees LTIP entitlements will vest at one third each year from the initial closing of such future funds except for Tricon XI. Tricon XI shall vest in equal proportions on each of the first four anniversaries of the initial close of the Fund. Future funds shall have a vesting period calculated from the initial close of the Fund and ending one year after the end of the Investment Period. 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 in future years.

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 approximately \$270,000 or decrease by approximately \$270,000. 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 \$563,000 or increase by \$661,000, respectively.

	<b>For the Year Ended December 31,</b>	
	<u>2012</u>	<u>2011</u>
Opening balance - beginning of year	\$ 8,310,000	\$ 6,048,000
Payments	(48,000)	(156,000)
LTIP expense	1,733,000	2,418,000
Closing balance - end of year	<u>\$ 9,995,000</u>	<u>\$ 8,310,000</u>

# Tricon Capital Group Inc.

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	For the Year Ended December 31,	
	2012	2011
Current payments	\$ 15,000	\$ 40,000
Long-term expected payments	9,980,000	8,270,000
	<u>\$ 9,995,000</u>	<u>\$ 8,310,000</u>

### 15. DIVIDENDS

Date of Declaration	Record Date	Payment Date	per Common Share	Shares Outstanding	Dividend Amount
<b>2011</b>					
April 6, 2011	March 31, 2011	April 15, 2011	\$0.06	18,240,871	\$1,094,000
May 11, 2011	June 30, 2011	July 15, 2011	\$0.06	18,240,871	\$1,094,000
August 10, 2011	September 30, 2011	October 14, 2011	\$0.06	18,240,871	\$1,095,000
November 11, 2011	December 30, 2011	January 13, 2012	\$0.06	18,233,471	<u>\$1,094,000</u>
					<u>\$4,377,000</u>
<b>2012</b>					
March 14, 2012	March 30, 2012	April 13, 2012	\$0.06	18,230,471	\$1,094,000
May 8, 2012	June 30, 2012	July 13, 2012	\$0.06	31,167,971	\$1,870,000
August 9, 2012	September 30, 2012	October 15, 2012	\$0.06	31,167,971	\$1,870,000
November 9, 2012	December 31, 2012	January 15, 2013	\$0.06	41,752,849	<u>\$2,505,000</u>
					<u>\$7,339,000</u>

On November 20, 2012, the Company implemented a Dividend Reinvestment Plan ("DRIP") under which eligible shareholders of the Company may elect to have all or part of their cash dividend automatically reinvested into additional common shares. These additional shares will be issued from treasury (or purchased on the open market) on the applicable dividend payment date and will be priced at 95% of the Average Market Price, calculated as the volume weighted trading price of the Company's common shares on the TSX over the five business days immediately preceding the dividend payment date. If common shares are purchased in the open market, they will be priced at the average weighted cost of the Company's common shares on the TSX over the five business days following the dividend payment date.

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.

As of December 31, 2012, 1,395 common shares were declared to be issued under the DRIP (nil in 2011) for a total amount of \$9,500 (\$nil in 2011) on January 15, 2013.

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### 16. NON-CONTROLLING INTEREST

The Company entered the U.S. distressed single-family home rental market in the second quarter of 2012 through a network of partnerships with local operating partners that have started to acquire, renovate, lease and manage homes. The local operating partners own a 3% to 20% interest in the partnerships that the Company consolidates for financial reporting purposes. As a result, non-controlling interest fair value shown on the consolidated balance sheet represents the liabilities that the Company will have to pay to the local operators upon dissolution of the limited life partnerships. Non-controlling interest of \$11,496,000 as presented on the balance sheet was calculated based on the estimated net cash flow of each partnership upon assumed dissolution as of year-end. The net cash flow was run through a waterfall calculation as outlined by the limited partnership agreements. Non-controlling interest fair value change of \$332,000 for the year ended December 31, 2012 relates to net income of the four rental operators.

The non-controlling interest fair value with respect to Tricon XII Limited Partnership (Tricon XII) is not reflected on the consolidated balance sheet at December 31, 2012 and December 31, 2011 since Tricon XII was no longer consolidated by the Company effective June 15, 2011 in accordance with IFRS 10. Non-controlling interest fair value change of \$931,000 during year ended December 31, 2011 relates to the consolidation of the Tricon XII's financial statements for that period.

### 17. SHARE CAPITAL

Date	Particulars	Notes	No of shares Issued	Share Capital
<b>As at January 1, 2011 - Opening Balance</b>			<b>18,240,871</b>	<b>\$ 57,934,000</b>
Dec 6 - Dec 29, 2011	Repurchased and cancelled under the normal course issuer bid (NCIB)	(A)	(10,400)	(33,000)
<b>As at December 31, 2011</b>			<b>18,230,471</b>	<b>57,901,000</b>
April 27, 2012	Bought deal offering	(B)	12,937,500	49,421,000
December 4, 2012	Bought deal offering	(C)	10,447,500	57,259,000
December 17, 2012	Vested Phantom Units	(D)	137,378	571,000
<b>As at December 31, 2012 - Ending Balance</b>			<b>41,752,849</b>	<b>\$165,152,000</b>

(A) On November 18, 2011, Toronto Stock Exchange (TSX) approved the Company's intention to make a normal course issuer bid (NCIB) for a portion of its Common Shares. Under the NCIB, the Company may repurchase for cancellation up to a maximum number of Common Shares equal to a lesser of 912,043, being 5% of the issued and outstanding Common Shares and the number of Common Shares that can be purchased for an aggregate purchase price not to exceed \$500,000 in the twelve-month period commencing November 22, 2011 and ending November 21, 2012. Between December 6 and December 29, 2011, the Company acquired and cancelled 10,400 Common Shares at an average price of \$4.32 for a total of \$50,000, including transaction costs.

(B) On April 27, 2012, the Company issued 12,937,500 common shares under a bought deal agreement at \$4.00 per share for gross proceeds of \$51,750,000, resulting in net proceeds from the offering of approximately \$49,421,000. The shares issued under this bought deal agreement have no par value.

(C) On December 4, 2012, the Company issued 10,447,500 common shares under a bought deal agreement at \$5.70 per share for gross proceeds of \$59,550,750, resulting in net proceeds from the offering of approximately \$57,259,000 primarily for its US single-family home rental strategy. The shares issued under this bought deal agreement have no par value.

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(D) On December 17, 2012, 137,378 phantom units vested and increased share capital by approximately \$571,000. This addition to share capital was calculated based on the strike price of \$4.16 per share at grant date of the phantom units. The shares issued under this bought deal agreement have no par value.

The Company can issue unlimited common shares and unlimited redeemable and retractable Class A, B and C shares.

As of December 31, 2012, the Company had 41,752,849 common shares outstanding (Dec 31, 2011 – 18,230,471).

### 18. INTEREST INCOME

	For the Year Ended December 31,	
	2012	2011
Interest on short and long-term investments	(A) \$ 566,000	\$ 597,000
Preferred return earned due to Tricon XII LP closings (note 5)	30,000	-
Loan interest earned from CCR Texas Holdings LP (note 5)	719,000	-
Interest earned on temporary loans provided to the funds managed by the Company (note 5)	43,000	75,000
	<u>\$ 1,358,000</u>	<u>\$ 672,000</u>

(A) net of bond premium amortization of \$113,000.

### 19. COMPENSATION ARRANGEMENTS

The breakdown of the various compensation arrangements are as follows:

	For the Year Ended December 31,	
	2012	2011
Stock options	\$ 264,000	\$ 557,000
Phantom units	722,000	78,000
Short-term incentive plan	1,443,000	774,000
Deferred Share Unit Plan	87,000	55,000
Long-term incentive plan (note 14)	1,733,000	2,418,000

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

#### 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 to employees and at management's discretion for service

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providers. The Company has no legal or constructive obligation to repurchase or settle the options in cash. All options will be settled in equity.

On November 22, 2011, 55,000 stock options were granted of which 40,000 belong to employees of the Company and 15,000 to Spinnaker Capital Markets Inc. as partial consideration for services provided under the Service Agreement dated October 31, 2011. On November 1, 2012, 15,000 stock options were granted to Spinnaker Capital Markets Inc. as partial consideration for services provided. No options were exercised in the year ended December 31, 2012. Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	<u>As at December 31, 2012</u>	
	<u>Average exercise price per share</u>	<u>Options (in thousands)</u>
As of January 1, 2011	\$ 5.94	941.5
Granted during 2011	4.16	55.0
Forfeited during the year	-	-
As of December 31, 2011	<u>\$ 5.84</u>	<u>996.5</u>
Granted during 2012	5.70	15.0
Forfeited during the year	-	-
As of December 31, 2012	<u>\$ 5.84</u>	<u>1,011.5</u>

	<u>As at December 31, 2012</u>	
<u>Expiry date</u>	<u>Exercise price per share</u>	<u>Options (in thousands)</u>
November 1, 2013 (granted in 2012)	\$ 5.70	15.0
May 19, 2020 (granted in 2010)	6.00	870.0
August 3, 2020 (granted in 2010)	5.26	71.5
November 22, 2020 (granted in 2011)	4.16	55.0

The fair value of the options granted in 2011 and 2012 was determined using the Black-Scholes valuation model. The fair value of the options granted totaled \$5,000 and \$41,000 in 2012 and 2011, respectively. The significant inputs into the model were:

	<u>As at November 22, 2011</u>		<u>As at November 1, 2012</u>	
Share price	\$	4.31	\$	5.80
Exercise price	\$	4.16	\$	5.70
Expected volatility		33%		18%
Expected dividend yield		5.57%		4.14%
Expected option life		6 years		0.65 years
Risk-free interest rate		2%		1%

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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.

### Phantom unit plan

The Company adopted a Phantom Unit Plan (“PUP”) on April 18, 2011 in accordance with the Toronto Stock Exchange (“TSX”) guidelines as approved by the shareholders on May 18, 2011. The Plan consists of share-based awards to officers and employees of, and advisors to, the Company and its subsidiaries. Movements in the number of phantom units outstanding and their related average exercise price are as follows:

	<u>As at December 31, 2012</u>	
	<u>Average exercise price per share</u>	<u>Units (in thousands)</u>
January 1, 2011	\$ -	-
Granted during 2011	4.16	192.3
As at December 31, 2011	\$ 4.16	192.3
Exercised during 2012	4.16	(192.3)
As at December 31, 2012	-	-

The fair value of the units granted on November 22, 2011 totaled \$800,000 (being 192,300 units issued at \$4.16 per unit in accordance with the PUP). The units vested on November 22, 2012 as per the terms of the initial grant. On December 17, 2012, all phantom units previously issued were exercised net of taxes required to be withheld under the PUP. As a result, a total of 137,378 common shares were issued out of treasury, increasing share capital by approximately \$571,000 along with a cash settlement of \$339,000 to cover tax liability.

### Short-term incentive plan (“STIP”)

All of the Company’s employees participate in the STIP. The STIP pool is currently 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 at the end of the financial year to receive a payment under the STIP. The Board of Directors has the right to allocate up to 20% of base operating income (other than income attributable to funds established prior to the IPO where the percentage is fixed at 12.5%) to the bonus pool. The Board has determined that the STIP percentage will remain at 12.5% for 2012.

STIP expense is accrued quarterly and is shown on the Consolidated Statements of Net and Comprehensive Income.

### Deferred share unit plan (“DSUP”)

On May 20, 2010, the Company established a 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 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.



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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.

Upon the redemption of the DSUs, the Company shall pay to the independent director a lump sum cash payment 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, they 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.

## 20. FORMATION COSTS AND GENERAL AND ADMINISTRATION EXPENSES

### Formation costs

Formation cost reversal of \$(192,000) for the year ended December 31, 2012 relate to reimbursement of costs by Tricon XI (2011 - \$589,000 relate to Tricon XII and Tricon XI LPs).

### General and administration expenses

	For the Year Ended December 31,	
	2012	2011
Office and other	\$ 434,000	\$ 519,000
Public Company Expenses	\$ 356,000	\$ 242,000
Rent (note 5)	96,000	92,000
Travel	142,000	123,000
	<u>\$ 1,028,000</u>	<u>\$ 976,000</u>

Public Company Expenses consists of filing fees, investor relation expenses, and insurance fees.

## 21. INCOME (LOSS) PER SHARE

### a) Basic

Basic income (loss) per share is calculated by dividing net income (loss) by the weighted average number of shares outstanding during the year.

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	For the Year Ended December 31,	
	2012	2011
Net income (loss)	\$ (5,212,000)	\$ 544,000
Basic net income (loss) per share	\$ (0.19)	\$ 0.03
Weighted average number of common shares outstanding	27,731,820	18,240,004

### b) Diluted

Diluted income (loss) per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all dilutive potential shares. The Company has two categories of dilutive potential shares: stock options (note 19) and the convertible debentures (note 7). For the stock options, a calculation was done to determine the number of shares that could have been acquired at fair value (determined using Market Price of the Company's shares as of December 31, 2012) based on the monetary value of the subscription rights attached to outstanding stock options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the stock options.

As of December 31, 2012, 14,097 of the Company's stock options are dilutive (December 31, 2011 – 469 options) as the current exercise price of the vested stock options of \$4.16 is below the average annual market stock price of \$4.84.

As of December 31, 2012, none of the Company's convertible debenture units are dilutive (December 31, 2011 – nil). Convertible debentures are antidilutive as the interest, net of tax and the change in fair value of financial instruments through profit and loss per ordinary share obtainable on conversion exceeds basic earnings per share.

	For the Year Ended December 31,	
	2012	2011
Net income (loss)	\$ (5,212,000)	\$ 544,000
Diluted earnings (loss) per share	\$ (0.19)	\$ 0.03
Weighted average number of common shares outstanding	27,731,820	18,240,004
Weighted average number of common shares outstanding		
Adjustments for stock options	14,375	469
Weighted average number of common shares outstanding for diluted earnings per share	27,746,195	18,240,473

## 22. SEGMENTED INFORMATION

Due to the growth experienced during the year ended December 31, 2012 in the separate accounts business as well as the new single-family rental initiative undertaken by the Company, segmented information is provided below for a greater understanding of segmented revenues, assets and

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liabilities. The main segments of the business are considered to be funds, separate account revenue and net rental operating income. The Company evaluates segment performance based on income (loss) before non-controlling interest and income taxes.

	Funds	Separate Accounts	Single-Family Homes	Co-Investment	Total
	A	B	C	D	
<b>Year ended</b>					
<b>December 31, 2012</b>					
Revenues	12,429,000	2,282,000	13,382,000	3,909,000	32,002,000
Direct Expenses	(1,541,000)	-	(14,545,000)	-	(16,086,000)
Overhead Allocation	(15,443,000)	(1,242,000)	(2,921,000)	(482,000)	(20,088,000)
Income (loss) before NCI and income taxes	(4,555,000)	1,040,000	(4,084,000)	3,427,000	(4,172,000)
<b>Year ended</b>					
<b>December 31, 2011</b>					
Revenues	10,757,000	-	-	274,000	11,031,000
Direct Expenses	-	-	-	-	-
Overhead Allocation	(10,906,571)	-	-	(65,429)	(10,972,000)
Income (loss) before NCI and income taxes	(149,571)	-	-	208,571	59,000

### Notes:

A) The Funds segment revenues consist of all contractual and performance fees, interest income, gain/(loss) on sale of investments in associates, and general partner distributions. Specific expenses related to this segment are LTIP, formation costs.

B) Separate accounts segment consists of contractual fees. Direct Expenses consist of fees allocated to segment based on average Assets Under Management as of December 2012 and 2011. Please refer to item E) for details.

C) Single-family homes segment consists of rental revenue earned from investment properties, fair value adjustment on investment properties, revenues from homes sold and interest income, as well as all direct rental expenses, rental operator management fees, bank and debentures interest expense, impairment on inventory homes, and cost of homes sold.

D) The Co-investment segment consists of the Company's share of investment income (loss) in the funds managed by the Company and interest income.

E) Professional and directors' fees, general and administration, salaries and benefits, STIP, net change in fair value of financial instruments, amortization, realized and unrealized foreign exchange gain/loss, and equity compensation have been allocated to each segment based on segment's proportion of total average Assets Under Management ("AUM") as of December 31, 2012 and 2011. The resulting balances under each segment are presented as "Overhead Allocation" in the schedule above.

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	Funds	Separate Accounts	Single-Family Homes	Co-Investment	Corporate	Total
	A	B	C	D	E	
<i>Segmented current assets (as at December 31, 2012)</i>	\$ 1,070,000	\$ 1,618,000	\$ 30,139,000	\$ 27,600,000	\$ -	\$ 60,427,000
<i>Segmented non-current assets (as at December 31, 2012)</i>						
Loans receivable	-	7,429,000	-	-	-	7,429,000
Deferred income tax assets	2,590,000	39,000	5,000	16,000	3,076,000	5,726,000
Investments in associates	59,000	6,614,000	-	17,224,000	-	23,897,000
Long-term investments	-	-	-	-	-	-
Investment properties	-	-	139,603,000	-	-	139,603,000
Intangible assets	2,441,000	-	-	-	-	2,441,000
Office equipment and leasehold improvements	139,000	11,000	11,000	5,000	-	166,000
<i>Total segmented assets (as at December 31, 2012)</i>	6,299,000	15,711,000	169,758,000	44,845,000	3,076,000	239,689,000
<i>Segmented current liabilities (as at December 31, 2012)</i>	1,264,000	365,000	5,399,000	1,000	4,174,000	11,203,000
<i>Segmented non-current liabilities (as at December 31, 2012)</i>						
Bank debt	-	-	6,298,000	-	-	6,298,000
Deferred income tax liabilities	707,000	821,000	74,000	138,000	-	1,740,000
Non-controlling interest	-	-	11,496,000	-	-	11,496,000
Long-term incentive plan - non-current portion	9,980,000	-	-	-	-	9,980,000
Derivative financial instruments	-	-	23,921,000	-	-	23,921,000
Debentures payable	-	-	33,756,000	-	-	33,756,000
<i>Total segmented liabilities (as at December 31, 2012)</i>	11,951,000	1,186,000	80,944,000	139,000	4,174,000	98,394,000

### Notes:

A) Funds segmented current assets consist of accounts receivable from the funds and prepaid expenses. Funds segmented current liabilities consist of accounts payable and accruals current LTIP liabilities and income taxes payable.

B) Separate accounts segmented current assets consist of cash. Separate accounts segmented current liabilities consist of accounts payable and accruals and income taxes payable.

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C) Rental segmented current assets consist of cash held at the corporate and rental partnership levels, accounts receivable, prepaid expenses and inventory homes. Segmented current liabilities consist of accounts payable and accruals, dividends payable, income tax liability and debentures interest payable.

D) Co-investment segmented current assets consist of cash and short-term investments reserved for future funding commitments to the private funds. Segmented current liabilities consist of accounts payable and accruals, dividends payable and income taxes payable.

E) Corporate assets consist of accounts receivable, deferred income tax assets and income taxes recoverable. Corporate liabilities consist of accounts payable and accruals, income tax payable and dividends payable. Remaining Corporate assets and liabilities have been allocated to each segment based on segment's proportion of total Assets Under Management ("AUM") as of December 31, 2012 and 2011.

### 23. 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 5). 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 furniture lease expired on April 30, 2011. The lease had an option to buy the furniture which the Company exercised. On March 31, 2012, one of the existing office equipment leases was cancelled and was replaced with a new one with maturity on September 29, 2017. The future minimum payments in respect of the office equipment leases are:

2013	21,000
2014	21,000
2015	18,000
2016	10,000
2017	8,000
Thereafter	-

### 24. RENTAL INCOME

	For the Year Ended December 31,	
	2012	2011
Rental revenue	\$ 2,291,000	\$ -
Rental expenses	(1,069,000)	-
Rental operator management fees	(619,000)	-
Rental net income	<u>\$ 603,000</u>	<u>\$ -</u>

All operating leases are one year or less in duration.

Rental expenses include insurance fees related to coverage of rental properties, property management fees, lease commission, HOA/utilities expenses, property taxes, minor renovation expenses, operator management fees, rescinded purchase fees and auction fees.

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#### 25. LONG-TERM DEBT INTEREST

	For the Year Ended December 31,	
	2012	2011
Bank debt interest	\$ 76,000	\$ -
Convertible debentures interest	2,401,000	-
Total long-term debt interest	<u>\$2,477,000</u>	<u>\$ -</u>

Bank debt interest expense includes \$10,000 amortization on \$340,000 (US\$342,000) of loan costs for bank debt obtained under the U.S. rental strategy.

Convertible debentures interest expense includes \$1,379,000 interest payable to the bond holders as of December 31, 2012 and \$1,022,000 of the expense relates to the accretion of the bond discount and amortization of transaction costs.

#### 26. 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, 2012 (December 31, 2011 - \$nil).

#### 27. 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 fees and certain general partner distributions are earned to the end of the investment period. Subsequent to the investment period, contractual fees and the aforementioned general partner distributions start to decline as investments within a fund are realized. Performance fees which are earned at the end of the life cycle can vary significantly depending on fund performance resulting in volatile revenue streams.

#### 28. SUBSEQUENT EVENTS

As of January 1, 2013, Greater Sacramento SF Home Rental JV LLC, California SF Home Rental JV LLC, Phoenix SF Home Rental JV LLC, and LA SF Home Rental JV LLC amalgamated with Florida Home Rental JV LLC and the entity was renamed as Tricon American Homes LLC. Effective January 18, 2013, Tricon American Homes LLC qualified as a real estate investment trust ("REIT") for U.S. federal income tax purposes.

On January 7, 2013, the Company's partnership in Greater Sacramento entered into a second secured bank credit facility agreement in the amount of US\$1.2 million. Interest-only payments are required on the bank debt at 4.25% per annum beginning March 1, 2013 until March 1, 2018, thereafter the rate changes to six-month LIBOR plus 2.75% and include principal repayments to maturity on February 1, 2020. The rental operator incurred US\$21,000 of expenses related to the loan application. The facility is secured by the Company's single-family rental investment properties that have been approved by the lender based on the terms of the borrowing agreement.

## **Tricon Capital Group Inc.**

Notes to Consolidated Financial Statements

December 31, 2012 and 2011

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

On February 25, 2013, the Company completed a 5.60% convertible debenture offering, payable semi-annually at the end of March and September under a bought deal agreement for gross proceeds of \$86,000,000.

On March 12, 2013, the Company declared a dividend of \$0.06 per share for a total dividend of \$2,505,000, following approval from the Board of Directors.

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