



**TRICON CAPITAL GROUP INC.**

**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

*JUNE 30, 2012 AND 2011*



# Tricon Capital Group Inc.

## Interim Consolidated Balance Sheets (Unaudited)

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

	<u>Notes</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	4	\$ 18,089,000	\$ 22,008,000
Short term investments	4	19,792,000	9,188,000
Accounts receivable	5	984,000	779,000
Prepaid expenses and other assets		409,000	154,000
Housing Inventories	6	6,196,000	-
Income taxes recoverable		-	185,000
		<u>45,470,000</u>	<u>32,314,000</u>
<b>Non-current assets</b>			
Loans receivable	7	7,996,000	-
Investments in associates	8	22,562,000	8,009,000
Long-term investments	7	10,762,000	10,802,000
Investment properties	9	17,949,000	-
Intangible assets	10	2,424,000	2,777,000
Office equipment and leasehold improvements	11	134,000	153,000
Deferred income tax assets	12	3,987,000	2,975,000
		<u>65,814,000</u>	<u>24,716,000</u>
<b>Total assets</b>		<u>\$ 111,284,000</u>	<u>\$ 57,030,000</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Accounts payable and accruals	5,13	\$ 2,855,000	\$ 889,000
Long-term incentive plan - current portion	5,14	31,000	40,000
Dividends payable	5,15	1,870,000	1,094,000
Income taxes payable		427,000	18,000
		<u>5,183,000</u>	<u>2,041,000</u>
<b>Non-current liabilities</b>			
Deferred income tax liabilities	12	662,000	706,000
Non-controlling interest	16	969,000	-
Long-term incentive plan - non-current portion	5,14	9,042,000	8,270,000
		<u>15,856,000</u>	<u>11,017,000</u>
<b>Equity</b>			
Share capital	17	107,333,000	57,901,000
Contributed surplus		1,735,000	1,190,000
Deficit		(13,640,000)	(13,078,000)
<b>Total equity</b>		<u>95,428,000</u>	<u>46,013,000</u>
<b>Total liabilities and equity</b>		<u>\$ 111,284,000</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.

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

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

	<u>Notes</u>	<b>For the Six Months Ended</b>	
		<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Revenue</b>			
Contractual fees	5	\$ 5,316,000	\$ 4,560,000
General partner distributions	5	2,143,000	73,000
Performance fees	5	75,000	306,000
Investment income	5,8	133,000	-
Rental revenue		91,000	-
Interest income	18	567,000	372,000
		<u>8,325,000</u>	<u>5,311,000</u>
<b>Expenses</b>			
Salaries and benefits expense	5,19	1,873,000	1,767,000
Short-term incentive plan	5,19	744,000	299,000
Long-term incentive plan	5,14	763,000	2,132,000
Stock compensation	5,19	545,000	351,000
Rental expense		33,000	-
Professional and directors fees expense	5,19	550,000	602,000
Formation costs	20	73,000	502,000
General and administration expense	20	429,000	358,000
Amortization expense	10,11	565,000	612,000
Realized and unrealized foreign exchange (gain) loss		(586,000)	400,000
		<u>4,989,000</u>	<u>7,023,000</u>
<b>Income (loss) before non-controlling interest and income taxes</b>		<b>3,336,000</b>	<b>(1,712,000)</b>
Non-controlling interest fair value change	16	1,000	931,000
<b>Income (loss) before income taxes</b>		<b>3,337,000</b>	<b>(781,000)</b>
Income tax (expense) recovery	12	(935,000)	77,000
<b>Net and comprehensive income (loss) for the period</b>		<b>\$ 2,402,000</b>	<b>\$ (704,000)</b>
<b>Basic and diluted income (loss) per share</b>	21	<b>\$ 0.11</b>	<b>\$ (0.04)</b>

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

## Tricon Capital Group Inc.

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

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

	<u>Notes</u>	<b>For the Three Months Ended</b>	
		<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Revenue</b>			
Contractual fees	5	\$ 3,445,000	\$ 2,212,000
General partner distributions	5	915,000	73,000
Performance fees	5	75,000	119,000
Investment income (loss)	5,8	98,000	(4,000)
Rental revenue		91,000	-
Interest income	18	402,000	170,000
		<u>5,026,000</u>	<u>2,570,000</u>
<b>Expenses</b>			
Salaries and benefits expense	5,19	937,000	867,000
Short-term incentive plan	5,19	545,000	199,000
Long-term incentive plan	5,14	330,000	1,507,000
Stock compensation expense	5,19	252,000	140,000
Rental expense		33,000	-
Professional and director's fees expense	5,19	304,000	308,000
Formation costs	20	49,000	218,000
General and administration expense	20	220,000	180,000
Amortization expense	10,11	275,000	307,000
Realized and unrealized foreign exchange (gain) loss		(906,000)	23,000
		<u>2,039,000</u>	<u>3,749,000</u>
<b>Income (loss) before non-controlling interest and income taxes</b>		<b>2,987,000</b>	<b>(1,179,000)</b>
Non-controlling interest fair value change	16	1,000	616,000
<b>Income (loss) before income taxes</b>		<b>2,988,000</b>	<b>(563,000)</b>
Income tax (expense) recovery	12	(829,000)	54,000
<b>Net and comprehensive income (loss) for the period</b>		<b>\$ 2,159,000</b>	<b>\$ (509,000)</b>
<b>Basic and diluted net income per share</b>	21	<b>\$ 0.08</b>	<b>\$ (0.03)</b>

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## Tricon Capital Group Inc.

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

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

		<u>Share Capital</u>	<u>Contributed Surplus</u>	<u>Retained Earnings (Deficit)</u>	<u>Total Equity</u>
<b>Balance at January 1, 2011</b>		57,934,000	555,000	(9,228,000)	49,261,000
Net and comprehensive loss for the period		-	-	(704,000)	(704,000)
Dividends		-	-	(2,188,000)	(2,188,000)
Stock option expense	19	-	351,000	-	351,000
<b>Balance at June 30, 2011</b>		<u>57,934,000</u>	<u>906,000</u>	<u>(12,120,000)</u>	<u>46,720,000</u>
Net and comprehensive income for the period		-	-	1,248,000	1,248,000
Dividends	15	-	-	(2,189,000)	(2,189,000)
Repurchase of common shares	17	(33,000)	-	(17,000)	(50,000)
Stock option expense	19	-	206,000	-	206,000
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>(13,078,000)</u>	<u>46,013,000</u>
Net and comprehensive income for the period		-	-	2,402,000	2,402,000
Dividends	15	-	-	(2,964,000)	(2,964,000)
Repurchase of common shares	17	-	-	-	-
Issuance of common shares	17	51,750,000	-	-	51,750,000
Equity issuance costs-net of income taxes of \$839,000		(2,318,000)	-	-	(2,318,000)
Stock option expense	19	-	176,000	-	176,000
Phantom units	19	-	369,000	-	369,000
<b>Balance at June 30, 2012</b>		<u>\$ 107,333,000</u>	<u>\$ 1,735,000</u>	<u>\$ (13,640,000)</u>	<u>\$ 95,428,000</u>

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# Tricon Capital Group Inc.

## Interim Consolidated Statements of Cash Flows (Unaudited)

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

	<u>Notes</u>	<b>For the Six Months Ended</b>	
		<u>June 30, 2012</u>	<u>June 30, 2011</u>
<b>Cash provided by (used in)</b>			
<b>Operating activities</b>			
Net and comprehensive income for the period		\$ 2,402,000	\$ (704,000)
Adjustments for			
Non-controlling interest	16	(1,000)	(931,000)
Amortization	10, 11	565,000	612,000
DSUP expense	19	9,000	(2,000)
Deferred income taxes	12	(217,000)	(396,000)
Long-term incentive plan	14	763,000	2,097,000
Stock compensation expense		545,000	351,000
Accrued interest		(418,000)	(249,000)
Investment (income) loss	5, 8	(133,000)	-
Foreign exchange (loss) on cash		11,000	(219,000)
		<u>3,526,000</u>	<u>559,000</u>
Changes in non-cash working capital items			
Accounts receivable		(205,000)	(746,000)
Non-controlling interest	16	-	931,000
Income tax recoverable		185,000	(154,000)
Prepaid expenses and other assets		(255,000)	(75,000)
Accounts payable and accruals	5, 13	1,956,000	40,000
Income taxes payable		410,000	(565,000)
		<u>5,617,000</u>	<u>(10,000)</u>
<b>Investing activities</b>			
Purchase of office equipment	11	(18,000)	(16,000)
Purchase of short term investments		(10,500,000)	(5,000,000)
Purchase of long term investments		-	(6,995,000)
Placement fees		(175,000)	-
Investment in associates	8	(14,420,000)	(5,985,000)
Proceeds on disposal of short-term investments inclusive of interest received		141,000	15,222,000
Investment properties / inventories		(24,145,000)	-
Loans receivable		(7,783,000)	-
		<u>(56,900,000)</u>	<u>(2,774,000)</u>
<b>Financing activities</b>			
Issuance/ (repurchase) of common shares (net of issuance costs)	17	48,593,000	-
Dividends paid	15	(2,188,000)	(2,188,000)
Non-controlling interest	16	970,000	-
		<u>47,375,000</u>	<u>(2,188,000)</u>
<b>Foreign exchange loss on cash</b>		(11,000)	219,000
<b>Change in cash and cash equivalents during the period</b>		(3,908,000)	(4,972,000)
<b>Cash and cash equivalents - Beginning of period</b>		22,008,000	19,683,000
<b>Cash and cash equivalents - End of period</b>		<u>\$ 18,089,000</u>	<u>\$ 14,930,000</u>
<b>Supplementary information</b>			
Income taxes paid		<b>\$ 554,000</b>	<b>\$ 1,032,000</b>

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

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(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
TCN/TNHC LP	December 15, 2010
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
Dallas Riverfront, LP	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

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 interim 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 interim financial statements, including IAS 34, *Interim Financial Reporting*. The interim consolidated financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2011, which have been prepared in accordance with IFRS as issued by the IASB. These consolidated financial statements have been prepared using the historical cost convention with the exception of the Company’s

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

investment properties, investments in associates and joint venture which are recorded at fair value. The consolidated financial statements were authorized for issue on August 9, 2012 by the Board of Directors of Tricon. Subsequent to this date, the interim 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, the determination of the long-term incentive plan accrual, the estimates used in the fair valuing of stock option grants and the determination of consolidation requirements for the funds managed by the Company.

### 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 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. The non-controlling interest is measured at fair value at the end of each reporting period which changes in fair value recognized in the statement of net comprehensive income.

### Revenue recognition

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

Revenues primarily comprise contractual 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 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.



# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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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.

### 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 the statement of net and comprehensive income. The Company has elected to designate its general partnership interests at fair value.

#### b) *Warehoused investments*

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 the statement of net and comprehensive income. The Company has elected to designate its ownership interests in its joint venture at fair value.

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 either a discounted cash flow (DCF) model or a multiple model.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

The multiple model is designed to value a company by comparing book to market value and determining a range of multiples for companies within specific industries. The multiple range related to real estate development companies is then used on the Company's investment to determine the fair value of the warehoused investment.

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. The effect on net and comprehensive income of a 1% absolute change in the discount rate of 20% is as follows:

	Discount rate Increase 1%	Discount rate Decrease 1%
Effect on net and comprehensive income	(\$277,000)	\$298,000

### c) *Investment in Tricon XII Limited Partnership*

The Company has a designated investment in Tricon XII Limited Partnership through its wholly-owned subsidiary Tricon Capital Fund XII Co-Investment Inc. that invests in Tricon XII LP as a limited partner, which is recorded at fair value, consistent with the IAS 28 exemption referred to above.

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 which the Company early adopted along with IFRS 10, IFRS 11, and IAS 28 (revised 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.

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

### **Foreign currency translation**

Items included in the financial statements of each of the Company's subsidiaries are measured using the currency of the primary economic environment of the subsidiary. The consolidated

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

financial statements are presented in Canadian dollars, which is Tricon's functional currency and the functional currency of its foreign operations.

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

### Office equipment and leasehold improvements

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

Furniture	3 years
Office equipment	5 years
Computer equipment	2 years

Estimated useful lives and residual values of capital assets are reviewed and adjusted, if appropriate, at each financial year-end. Office equipment and leasehold improvements are tested for impairment whenever indicators of impairment exist. An impairment writedown is recorded when the carrying amount of a capital asset is determined to exceed its recoverable amount. The recoverable amount is the greater of an asset's fair value less cost to sell and its value-in-use.

### Financial instruments

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

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. 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.

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

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## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

### **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.

### **Housing inventories**

The Company's housing inventories are either purchased or arise where there is a change in use of investment properties evidenced by the commencement of development with a view to sale, and the properties are reclassified as housing inventories at their deemed cost, which is the fair value at the date of reclassification. They are subsequently carried at the lower of cost and net realizable value ("NRV").

Cost includes 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 is expensed when incurred.

Net realizable value is the estimated selling price in the ordinary course of business less costs to complete renovation or redevelopment and selling expenses.

### **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 and carrying costs and where applicable borrowing costs until property is ready for leasing.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Company uses alternative valuation methods, such as recent prices on less active markets, cap rates, or appraisals. Changes in fair values are recognized in the statement of comprehensive income. Investment properties are derecognized when they have been disposed.

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 inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

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## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

### **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.

### **Related parties**

Transactions and balances with related parties are identified by management and separately disclosed in the consolidated financial statements (note 5).

### **Leases**

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

Properties leased to third parties under operating leases are included in investment property in the statement of financial position (Note 9).

### **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.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

### 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 also considers the effects of stock options in calculating diluted earnings per share. Diluted earnings (loss) per share are determined by the weighted average number of shares outstanding, taking into account conversion of all dilutive potential ordinary shares on a weighted basis from the date the options vest to the balance sheet date.

### 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 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-maker is the chief executive officer (CEO) of the Company.

### 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

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

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

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 June 30, 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 June 30, 2012. 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 for annual periods beginning on or after January 1, 2015. The Company did not adopt this standard as of June 30, 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

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 and long-term investments 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, would not be significant to the Company's operations.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

### 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 USA (United States of America). A one percent movement in the US dollar exchange rate would result in approximately \$533,000 movement in unrealized foreign exchange income (loss) in the income statement. The Group 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.

### 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.

### c) Liquidity risk

The maturities of all of the Company's financial liabilities are less than twelve months. The Company has no other debt.

### Capital risk management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Company manages equity as capital and may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

As of June 30, 2012, the Company had no externally imposed regulatory requirements on capital.

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

### Cash and Cash Equivalents

	<u>June 30, 2012</u>	<u>December 31, 2011</u>
Bank operating accounts	\$ 10,165,000	\$ 5,480,000
High Interest Savings Account	-	5,592,000
CAD Interest Savings Account	7,731,000	4,317,000
USD Interest Savings Account	193,000	6,619,000
	<u>\$ 18,089,000</u>	<u>\$ 22,008,000</u>



# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

### Short-Term Investments

	<u>Rate</u>	<u>Maturity</u>	<u>June 30, 2012</u>	<u>December 31, 2011</u>
1-year GIC	1.55%	July 3, 2012	\$ 5,000,000	\$ 5,000,000
1-year GICs	1.75%	November 21, 2012	4,000,000	4,000,000
1-year GICs (1)	1.60%	April 17, 2013	2,500,000	-
1-year GICs (1)	1.70%	April 30, 2013	8,000,000	-
Accrued interest			292,000	188,000
			<u>\$ 19,792,000</u>	<u>\$ 9,188,000</u>

Notes:

(1) GICs are cashable within 30 days.

## 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 six month period ended June 30, 2012, the Company paid \$46,000 in rental payments, including common costs to Mandukwe (2011 - \$45,000).

### 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:

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Salaries, benefits and STIP (note 19)	\$ 616,000	\$ 653,000	\$ 1,233,000	\$ 1,207,000
Stock option expense (note 19)	36,000	83,000	93,000	208,000
Phantom units	98,000	-	196,000	-
LTIP paid	4,000	47,000	4,000	126,000
LTIP accrued (note 14)	81,000	1,146,000	189,000	1,554,000
	<u>835,000</u>	<u>1,929,000</u>	<u>1,715,000</u>	<u>3,095,000</u>
Director's compensation (note 19)	48,000	37,000	99,000	93,000
	<u>\$ 883,000</u>	<u>\$ 1,966,000</u>	<u>\$ 1,814,000</u>	<u>\$ 3,188,000</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:

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Contractual fees	\$ 3,445,000	\$ 2,212,000	\$ 5,316,000	\$ 4,560,000
General Partner distributions (A)	915,000	73,000	2,143,000	73,000
Performance fees	75,000	119,000	75,000	306,000
Investment income	98,000	(4,000)	133,000	-
Interest income	17,000	18,000	55,000	62,000
	<u>\$ 4,550,000</u>	<u>\$ 2,418,000</u>	<u>\$ 7,722,000</u>	<u>\$ 5,001,000</u>

- A. The Company received distributions from an investment fund of \$576,000 in the six month period ended June 30, 2011, of which all but \$73,000 was eliminated on consolidation as that investment fund was consolidated until June 15, 2011.

### Balances arising from transactions with related parties

	June 30, 2012	December 31, 2011
Receivables from related parties included in accounts receivable		
Contractual fees receivable from investment funds managed by the Company	\$ 505,000	\$ 427,000
Performance fees receivable from investment funds managed by the Company	13,000	11,000
Loan receivable from CCR Texas Holdings LP	7,996,000	-
Other receivables	45,000	75,000
Investment property seeded into partnerships by local operators	9,294,000	-
Payables to related parties included in accounts payable and accruals	142,000	391,000
Long Term Incentive Plan (current and non-current portion)	9,073,000	8,310,000
Short Term Incentive Plan	767,000	113,000
Dividends payable to employees and associated corporations	409,000	407,000

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 June 30, 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 24 for further details.

## 6. HOUSING INVENTORIES

Inventories represent residential homes that the Company intends to sell within 12 months of the consolidated balance sheet date.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Opening balance - beginning of period	\$ -	\$ -
Direct acquisitions of housing inventories	6,141,000	-
Subsequent expenditure on housing inventories	55,000	-
Closing balance - end of period	<u>\$ 6,196,000</u>	<u>\$ -</u>

As of June 30, 2012, none of the inventories was pledged as collateral.

## 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 June 30 2012, the Company had a loan receivable of US\$7.9 million (\$8 million Canadian equivalent) net of US\$167,000 commitment fee received, bearing a 12% interest rate, compounding monthly, maturing on December 31, 2019. The accrued interest was \$218,000 as of June 30, 2012 (\$nil - December 31, 2011) with an effective interest rate of 12.9%.

### Long-term investments

The Company purchased two two-year Guaranteed Investment Certificates for a total of \$4,000,000, bearing a 2.10% interest rate which will mature on November 18, 2013. The accrued interest was \$52,000 as of June 30, 2012 (\$10,000 - December 31, 2011).

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 have an interest rate of 4.95% per annum with a yield of 2.3% payable semi-annually and mature on January 23, 2014. Management intends to hold the bonds to maturity. A 1% change in interest rates would impact the fair value of these bonds by \$69,000.

The premium is amortized at the effective interest rate of 2.3% and is netted against the interest under Interest Income. The premium amortization expense for the six months ended June 30, 2012 was \$81,000 (2011 – \$nil). These bonds hold a credit rating of AA at June 30, 2012.

The carrying value of long-term investments approximates their fair value due to the short term to maturity.

## 8. INVESTMENT IN ASSOCIATES AND JOINT VENTURE

The total investment in The New Home Company ("TNHC"), an Orange County, California-based homebuilding and land development company was US\$9.6 million (\$9.8 million Canadian equivalent) as of June 30, 2012 and US\$7.7 million (\$7.8 million Canadian equivalent) as of December 31, 2011 which are the fair values at the respective period ends. The Company's total commitment to TNHC is US\$10 million which is a 16.7% ownership interest in the investment. This is a warehoused investment.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

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 through the consolidated statements of comprehensive income (loss). 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. The fair value of the Company's investment in Tricon XII was \$3.7 million as of June 30, 2012 (\$0.2 million – December 31, 2011) with a fair value adjustment of \$92,000 included in Investment income in the consolidated statements of net and comprehensive income (loss).

The Company committed US\$11.2 million through Dallas Riverfront LP, a subsidiary of Tricon Holdings USA LLC to Cadiz Riverfront Holdings LP, a single purpose entity formed by Matthews Southwest Development, for the purpose of acquiring and developing a mixed-use development site located at 1500 South Riverfront Boulevard and 318 Cadiz Street in Dallas, Texas ("Dallas Project"). As of June 30, 2012, the Company had invested US\$4.1 million (\$4.2 million Canadian equivalent) which is the fair value of the investment. This is a warehoused investment.

On April 9, 2012, the Company made an equity commitment, of US\$5.4 million of which US\$4.7 million was advanced as of June 30, 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\$4.7 million as of June 30, 2012 (\$4.8 million Canadian equivalent) with a fair value adjustment of \$28,000 included in Investment income in the consolidated statements of net and comprehensive income (loss).

The remaining investment of \$52,000 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:

	<u>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>		
Current assets	7,703,000	6,069,000		
Non-current assets	131,433,000	35,699,000		
Current liabilities	5,459,000	2,731,000		
Non-current liabilities	9,274,000	9,543,000		
	<u>For the Three Months Ended June 30,</u> <u>2012</u>	<u>2011</u>	<u>For the Six Months Ended June 30,</u> <u>2012</u>	<u>2011</u>
Revenue	8,927,000	19,327,000	16,700,000	28,211,000
Profit or (loss) for the year	942,000	62,000	1,304,000	(246,000)
Comprehensive income	745,000	26,000	1,083,000	(289,000)

## Tricon Capital Group Inc.

### Notes to Interim Consolidated Financial Statements

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

The summarized financial information related to TNHC, Dallas and CCR Texas Holdings LP projects has been prepared in accordance with US GAAP and financial information related to Tricon XII LP has been prepared in accordance with Canadian ASPE.

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>June 30,</u> <u>2012</u>	<u>December 31,</u> <u>2011</u>
Opening balance - beginning of period	\$ -	\$ -
Direct acquisitions of investment property	17,471,000	-
Subsequent expenditure on investment property	159,000	-
Effect of translation to presentation currency	319,000	-
Closing balance - end of period	<u>\$ 17,949,000</u>	<u>\$ -</u>

The Company assessed and concluded that the fair value of the investment properties, which include investment properties under renovations, approximates its cost as of June 30, 2012 as relatively short time has elapsed since acquisitions of the investment properties and period end. No external appraisals were performed as of June 30, 2012.

As of June 30, 2012, none of the investment properties was pledged as collateral.

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# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(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>Period ended June 30, 2012</b>			
Opening Net book value	2,205,000	572,000	2,777,000
Additions	175,000	-	175,000
Amortization expense	<u>(488,000)</u>	<u>(40,000)</u>	<u>(528,000)</u>
Net book value	<u>1,892,000</u>	<u>532,000</u>	<u>2,424,000</u>
<b>As at June 30, 2012</b>			
Cost	8,780,000	707,000	9,487,000
Accumulated amortization	<u>(6,888,000)</u>	<u>(175,000)</u>	<u>(7,063,000)</u>
Net book value	<u>\$ 1,892,000</u>	<u>\$ 532,000</u>	<u>\$ 2,424,000</u>

There were no impairment charges of Placement fees and Rights to performance fees in the period ended June 30, 2012 and in the year ended December 31, 2011.

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

(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	(6,000)	(11,000)	(29,000)	(26,000)	(72,000)
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	(139,000)	(55,000)	(443,000)	(314,000)	(951,000)
Net book value	<u>\$ 13,000</u>	<u>\$ 3,000</u>	<u>\$ 25,000</u>	<u>\$ 112,000</u>	<u>\$ 153,000</u>
<b>Period ended June 30, 2012</b>					
Opening Net book value	13,000	3,000	25,000	112,000	153,000
Additions	-	-	18,000	-	18,000
Amortization expense	(4,000)	(2,000)	(18,000)	(13,000)	(37,000)
Net book value	<u>9,000</u>	<u>1,000</u>	<u>25,000</u>	<u>99,000</u>	<u>134,000</u>
<b>As at June 30, 2012</b>					
Cost	152,000	58,000	486,000	426,000	1,122,000
Accumulated amortization	(143,000)	(57,000)	(461,000)	(327,000)	(988,000)
Net book value	<u>9,000</u>	<u>1,000</u>	<u>25,000</u>	<u>99,000</u>	<u>134,000</u>

There were no impairment charges in the period ended June 30, 2012 and in the year ended December 31, 2011.

### 12. INCOME TAXES

	<u>For the Three Months Ended June 30,</u>		<u>For the Six Months Ended June 30,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>Current income tax</b>				
Current income taxes (recovery) on income for the quarter	\$ 1,012,000	\$ 205,000	\$ 1,254,000	\$ 319,000
Adjustments relating to prior years	(92,000)	-	(106,000)	-
	<u>920,000</u>	<u>205,000</u>	<u>1,148,000</u>	<u>319,000</u>
<b>Deferred taxes</b>				
Origination and reversal of temporary differences	(168,000)	(272,000)	(221,000)	(412,000)
Adjustments relating to prior years	175,000	(11,000)	128,000	(11,000)
Impact of change in effective rates	(98,000)	24,000	(120,000)	27,000
	<u>(91,000)</u>	<u>(259,000)</u>	<u>(213,000)</u>	<u>(396,000)</u>
Income tax expense (recovery)	<u>\$ 829,000</u>	<u>\$ (54,000)</u>	<u>\$ 935,000</u>	<u>\$ (77,000)</u>

# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

(Unaudited)

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

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Income (loss) before income taxes	\$ 2,988,000	\$ (563,000)	\$ 3,337,000	\$ (781,000)
Combined statutory federal and provincial income tax rate	26.50%	28.25%	26.50%	28.25%
Expected income tax expense (recovery)	792,000	(159,000)	884,000	(221,000)
Tax rate differential (foreign tax rates)	46,000	44,000	54,000	12,000
Tax effects of				
Permanent differences	4,000	51,000	97,000	116,000
Change in effective tax rates	(98,000)	24,000	(120,000)	27,000
Adjustment in respect of prior years	83,000	(11,000)	22,000	(11,000)
Other	2,000	(3,000)	(2,000)	-
Income tax expense (recovery)	<u>\$ 829,000</u>	<u>\$ (54,000)</u>	<u>\$ 935,000</u>	<u>\$ (77,000)</u>

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

	June 30, 2012	December 31, 2011
Deferred Tax Assets:		
- Deferred tax asset to be recovered after more than 12 months	3,420,000	2,449,000
- Deferred tax asset to be recovered within 12 months	567,000	526,000
Total Deferred Tax Assets	<u>3,987,000</u>	<u>2,975,000</u>
Deferred Tax Liabilities:		
- Deferred tax liabilities reversing after more than 12 months	619,000	353,000
- Deferred tax liabilities reversing within 12 months	43,000	353,000
Total Deferred Tax Liabilities	<u>662,000</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	213,000	439,000
Credit to equity	839,000	-
Other	4,000	-
Closing balance	<u>3,325,000</u>	<u>2,269,000</u>

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



# Tricon Capital Group Inc.

## Notes to Interim Consolidated Financial Statements

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<u>Deferred Tax Assets</u>	Issuance costs	Long-term	Deferred	Partnership	Other	Total
		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)	662,000	325,000	3,000	44,000	(22,000)	1,012,000
At June 30, 2012	1,719,000	2,403,000	(29,000)	(293,000)	187,000	3,987,000

<u>Deferred Tax Liabilities</u>	Deferred	Total
	placement	
	fees	
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)	(44,000)	(44,000)
At June 30, 2012	662,000	662,000

### 13. ACCOUNTS PAYABLE AND ACCRUALS

	June 30, 2012	December 31, 2011
Accounts payable and accruals	\$ 1,250,000	\$ 776,000
Rental payables including tenant deposits	838,000	-
STIP (note 19)	767,000	113,000
	<u>\$ 2,855,000</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 first closing of such future funds. The LTIP liability is determined based on 50% of the expected performance fee that would be generated from the fair value of the assets within each fund at the balance sheet date, such performance fees will be recognized as revenue when earned. The fair value determination of the assets within a fund is based on a discounted cash flow model and requires management to make estimates and judgments concerning the future. These estimates and judgments are continually evaluated and are based on historical experience as adjusted for current market conditions and other factors. The resulting accounting estimates may differ from the related actual results. These estimates, assumptions and management judgments could result in a material adjustment to the carrying value of amounts of the LTIP liability 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.

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If the expected performance fee cash flows relating to each project were increased or decreased by 5%, the LTIP liability would increase by approximately \$120,000 or decrease by approximately \$120,000. 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 \$235,000 or increase by \$290,000, respectively.

	Three Months Ended June 30, 2012	Six Months Ended June 30, 2012	Year Ended December 31, 2011
Opening balance - beginning of period	\$ 8,743,000	\$ 8,310,000	\$ 6,048,000
Payments	-	-	(156,000)
LTIP expense	330,000	763,000	2,418,000
Closing balance - end of period	<u>\$ 9,073,000</u>	<u>\$ 9,073,000</u>	<u>\$ 8,310,000</u>
		<u>June 30, 2012</u>	<u>December 31, 2011</u>
Current		\$ 31,000	\$ 40,000
Long-term		9,042,000	8,270,000
		<u>\$ 9,073,000</u>	<u>\$ 8,310,000</u>

### 15. DIVIDENDS

Date of Declaration	Record Date	Payment Date	Dividend Amount per Common Share	Dividend Paid
<b>2011</b>				
April 6, 2011	March 31, 2011	April 15, 2011	\$0.06	\$1,094,000
May 11, 2011	June 30, 2011	July 15, 2011	\$0.06	\$1,094,000
				<u>\$2,188,000</u>
August 10, 2011	September 30, 2011	October 14, 2011	\$0.06	\$1,095,000
November 11, 2011	December 30, 2011	January 13, 2012	\$0.06	\$1,094,000
				<u>\$2,189,000</u>
<b>2012</b>				
March 14, 2012	March 30, 2012	April 13, 2012	\$0.06	\$1,094,000
May 8, 2012	June 30, 2012	July 13, 2012	\$0.06	\$1,870,000
				<u>\$2,964,000</u>

# Tricon Capital Group Inc.

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### 16. NON-CONTROLLING INTEREST

The Company has 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% 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 relates to net assets of the three 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 June 30, 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 \$1,000 during the three and six months ending June 30, 2012 as reflected on the consolidated statement of comprehensive income relates to net income of the three rental operators. Non-controlling interest fair value changes of \$616,000 and \$931,000 during the three and six months ending June 30, 2011, respectively, relate to the consolidation of the Tricon XII's financial statements for these periods. New consolidation rules issued under IFRS 10 and early adopted by the Company in 2011 changed the rules governing consolidation. This combined with the change of the Company's limited partnership interest from the new commitments closed on June 15, 2011 resulted in a change in the accounting treatment of Tricon XII from consolidation accounting to an investment in associate, recorded at fair value.

### 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	49,432,000
<b>As at June 30, 2012 - Ending Balance</b>			<b>31,167,971</b>	<b>\$107,333,000</b>

#### Notes

(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. The Company plans to use the net proceeds from the offering of approximately \$49,432,000 primarily for its US single-family home rental strategy.

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## Notes to Interim Consolidated Financial Statements

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

As of June 30, 2012, the Company had 31,167,971 common shares outstanding (Dec 31, 2011 – 18,230,471)

### 18. INTEREST INCOME

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Interest on short and long-term investments (A) \$	173,000	\$ 152,000	\$ 300,000	\$ 310,000
Preferred return earned due to Tricon XII LP closings	6,000	-	30,000	-
Loan interest earned from CCR Texas Holdings LP	212,000	-	212,000	-
Interest earned on temporary loans provided to the funds managed by the Company	11,000	18,000	25,000	62,000
	<u>\$ 402,000</u>	<u>\$ 170,000</u>	<u>\$ 567,000</u>	<u>\$ 372,000</u>

A - net of bond premium amortization of \$81,000.

### 19. COMPENSATION ARRANGEMENTS

The breakdown of the various compensation arrangements are as follows:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Stock options	\$ 68,000	\$ 140,000	\$ 176,000	\$ 351,000
Phantom units	184,000	-	369,000	-
Short-term incentive plan	545,000	199,000	744,000	299,000
Deferred Share Unit Plan	6,000	10,000	9,000	38,000
Long-term incentive plan (note 14)	330,000	1,507,000	763,000	2,132,000

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. 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. No options were granted or

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exercised in the period ended June 30, 2012 (2011 - nil). Movements in the number of share options outstanding and their related weighted average exercise price are as follows:

	<u>June 30, 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 the year	4.16	55.0
Forfeited during the year	-	-
As of December 31, 2011	<u>\$ 5.84</u>	<u>996.5</u>
Granted during the period	-	-
Forfeited during the period	-	-
As of June 30, 2012	<u>\$ 5.84</u>	<u>\$ 996.5</u>

	<u>June 30, 2012</u>	
<u>Expiry date</u>	<u>Exercise price per share</u>	<u>Options (in thousands)</u>
May 19, 2020	\$ 6.00	870.0
August 3, 2020	5.26	71.5
November 22, 2020	4.16	55.0

The fair value of the options granted in 2011 was determined using the Black-Scholes valuation model. The fair value of the options granted totaled \$229,000 in 2011. The significant inputs into the model were:

	<u>November 22, 2011</u>	
Share price	\$	4.31
Exercise price	\$	4.16
Expected volatility		33%
Expected dividend yield		5.57%
Expected option life		6 years
Risk-free interest rate		2%

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 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.

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	<u>June 30, 2012</u>	
	<u>Average exercise price per share</u>	<u>Units (in thousands)</u>
As of January 1, 2011	\$ -	-
Granted during 2011	4.16	192.3
Granted during the period ended June 30, 2012	-	-
Forfeited during the period	-	-
As at June 30, 2012 and December 31, 2011	<u>\$ 4.16</u>	<u>192.3</u>

The fair value of the units granted on November 22, 2011 totaled \$800,000. All units will vest on the date that is one year following the date upon which the awards were granted, at which time the Company will issue common shares and retire the phantom units.

### 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.

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

The liability is fair valued at each reporting date, based on the share price of the Company as at the reporting date and is recorded within current liabilities as there are no vesting requirements and payment takes place when a Board member resigns, which could take place at any time.

Upon the redemption of the DSUs, the Company shall pay to the independent director a lump sum cash payment (rounded to the nearest cent) equal to the number of DSUs to be redeemed multiplied by the market price of the Company's common shares on the redemption date, net of applicable deductions and withholdings. If an independent director ceases to be an eligible director, they may choose a redemption date by giving written notice to the Company provided that such

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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 costs of \$73,000 for the six months ended relate to Tricon XI LP (2011 - \$502,000 relate to Tricon XII and Tricon XI LPs).

#### General and administration expenses

	Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Office and other	\$ 178,000	\$ 140,000	\$ 354,000	\$ 290,000
Rent (note 5)	23,000	22,000	46,000	45,000
Travel	19,000	18,000	29,000	23,000
	<u>\$ 220,000</u>	<u>\$ 180,000</u>	<u>\$ 429,000</u>	<u>\$ 358,000</u>

### 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 quarter. None of the Company's stock options are dilutive at June 30, 2012 (June 30, 2011 – nil). Current exercise price of the Company's options are above the current market price of \$4.11.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2012	2011	2012	2011
Net income (loss)	\$ 2,159,000	\$ (509,000)	\$ 2,402,000	\$ (704,000)
Basic net income (loss) per share	\$ 0.08	\$ (0.03)	\$ 0.11	\$ (0.04)
Weighted average number of common shares outstanding	26,855,471	18,240,871	22,542,971	18,240,871

### 22. SEGMENTED INFORMATION

Due to the growth experienced during the three months ended June 30, 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 liabilities. The main segments of the business are considered to be fund revenue, separate account revenue and net rental operating income. The Company evaluates segment performance based on income (loss) before non-controlling interest and income taxes.

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	<u>Funds</u>	<u>Separate</u>	<u>Rental</u>	<u>Corporate</u>	<u>Total</u>
	<u>A</u>	<u>B</u>	<u>C</u>		
<b>Three months ended June 30, 2012</b>					
Revenues	\$ 3,097,000	\$ 1,838,000	\$ 91,000	\$ -	\$ 5,026,000
Expenses (D)	(635,000)	-	(33,000)	(1,371,000)	(2,039,000)
Income (loss) before non-controlling interest and income taxes	<u>2,462,000</u>	<u>1,838,000</u>	<u>58,000</u>	<u>(1,371,000)</u>	<u>2,987,000</u>
<b>Three months ended June 30, 2011</b>					
Revenues	2,570,000	-	-	-	2,570,000
Expenses (D)	(2,013,000)	-	-	(1,736,000)	(3,749,000)
Income (loss) before non-controlling interest and income taxes	<u>557,000</u>	<u>-</u>	<u>-</u>	<u>(1,736,000)</u>	<u>(1,179,000)</u>
<b>Six months ended June 30, 2012</b>					
Revenues	6,396,000	1,838,000	91,000	-	8,325,000
Expenses (D)	(1,364,000)	-	(33,000)	(3,592,000)	(4,989,000)
Income (loss) before non-controlling interest and income taxes	<u>5,032,000</u>	<u>1,838,000</u>	<u>58,000</u>	<u>(3,592,000)</u>	<u>3,336,000</u>
<b>Six months ended June 30, 2011</b>					
Revenues	5,311,000	-	-	-	5,311,000
Expenses (D)	(3,210,000)	-	-	(3,813,000)	(7,023,000)
Income (loss) before non-controlling interest and income taxes	<u>2,101,000</u>	<u>-</u>	<u>-</u>	<u>(3,813,000)</u>	<u>(1,712,000)</u>

### Notes:

A) The Funds segment revenues consist of all contractual and performance fees, general partner distributions and investment income. Specific expenses related to this segment are LTIP, formation costs and amortization of intangible assets.

B) Separate accounts segment consists of all contractual fees and interest income.

C) Rental segment consist of rental revenue earned from investment properties as well as all direct rental expenses.

D) Corporate expenses represent salaries and benefits, STIP, stock compensation, professional and directors' fees, general and administration, depreciation of fixed assets as well as realized and unrealized foreign exchange gain (loss). Other expenses specific to a segment are allocated to that segment.



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	<u>Funds</u>	<u>Separate</u>	<u>Rental</u>	<u>Corporate</u>	<u>Total</u>
	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	
Segmented assets (as at June 30, 2012)	<u>\$ 47,849,000</u>	<u>\$ 13,142,000</u>	<u>\$ 48,009,000</u>	<u>\$ 2,284,000</u>	<u>\$ 111,284,000</u>
Segmented liabilities (as at June 30, 2012)	<u>10,260,000</u>	<u>109,000</u>	<u>882,000</u>	<u>3,636,000</u>	<u>14,887,000</u>
Segmented assets (as at December 31, 2011)	<u>48,599,000</u>	<u>-</u>	<u>-</u>	<u>8,431,000</u>	<u>57,030,000</u>
Segmented liabilities (as at December 31, 2011)	<u>9,171,000</u>	<u>-</u>	<u>-</u>	<u>1,846,000</u>	<u>11,017,000</u>

### Notes:

A) Funds segment assets consist of cash, short-term and long-term investments reserved for future funding commitments to the private funds, accounts receivable from the funds, investment in associates, intangible assets and deferred income tax assets. Funds segment liabilities consist of current and long-term LTIP liabilities, income taxes payable and deferred income tax liabilities.

B) Separate accounts segment assets consist of cash, loan receivable from and equity investment in Cross Creek Ranch, as well as deferred income tax assets. Separate accounts segment liabilities consist of accruals and income taxes payable.

C) Rental segment assets consist of cash held at the rental partnership level, short-term investments reserved for future funding commitments, accounts receivable, prepaid expense, housing inventories, investment properties and deferred income tax assets. Rental segment liabilities consist of accruals, accounts and income taxes payable.

D) Corporate segment assets consist of accounts receivable, income tax recoveries, prepaid and other assets, office equipment and leasehold improvements and deferred income tax assets. Corporate segment liabilities consist of accounts payable and accruals as well as dividends payable.

## 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:

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2012	\$	10,000
2013		21,000
2014		21,000
2015		18,000
2016		10,000
Thereafter		8,000

### 24. 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 June 30, 2012 (December 31, 2011 - \$nil).

### 25. 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.

### 26. SUBSEQUENT EVENTS

On July 12, 2012, the Company closed its fourth partnership with Lake Success Living ("Lake Success") focused on acquiring, renovating and renting distressed single-family homes in the United States. The new partner operates in Southeast Florida (Miami-Dade, Broward and Palm Beach counties). The partnership acquired 70 U.S. distressed single-family homes as of August 8, 2012.

On July 30, 2012, the Company completed a 6.375% convertible debenture offering, payable semi-annually at the end of February and August, under a bought deal agreement for gross proceeds of \$51,750,000. The Company plans to use the net proceeds from the offering of approximately \$49,080,000 primarily for its U.S. single-family home rental strategy.

On August 9, 2012, the Company declared a dividend of \$0.06 per share for a total dividend of \$1,870,000, following approval from the Board of Directors.