



30 Years of Focus, Resilience and Growth.

INVESTING IN COMMUNITIES

CONDENSED INTERIM CONSOLIDATED
FINANCIAL STATEMENTS

for the Three and Nine Months Ended September 30, 2019



CONDENSED INTERIM CONSOLIDATED BALANCE SHEETS

Unaudited (in thousands of U.S. dollars)

| | Notes | September 30, 2019 | December 31, 2018 |
|---|---------|---------------------|---------------------|
| ASSETS | | | |
| Cash | | \$ 7,608 | \$ 7,773 |
| Amounts receivable | | 11,339 | 17,934 |
| Prepaid expenses and deposits | | 945 | 819 |
| Investments – Tricon American Homes | 3, 5 | 1,328,853 | 1,145,221 |
| Investments – Tricon Lifestyle Rentals | 3, 4, 5 | 531,321 | 129,838 |
| Investments – Tricon Housing Partners | 3, 5 | 318,424 | 307,564 |
| Intangible assets | 10 | 17,476 | 20,733 |
| Deferred income tax assets | 9 | 42,117 | 36,135 |
| Other assets | 11, 12 | 28,438 | 21,645 |
| Total assets | | \$ 2,286,521 | \$ 1,687,662 |
| LIABILITIES | | | |
| Amounts payable and accrued liabilities | 7 | \$ 30,744 | \$ 6,429 |
| Dividends payable | 13 | 10,257 | 7,350 |
| Long-term incentive plan | 16 | 20,805 | 21,407 |
| Debt | 6, 12 | 492,334 | 374,716 |
| Deferred income tax liabilities | 9 | 93,607 | 81,226 |
| Derivative financial instruments | 8 | 147 | 3,936 |
| Other liability | 4, 8 | 12,537 | – |
| Total liabilities | | 660,431 | 495,064 |
| Equity | | | |
| Share capital | 4, 14 | 1,199,695 | 793,521 |
| Share capital reserve | 4 | (13,057) | – |
| Contributed surplus | | 20,019 | 17,468 |
| Cumulative translation adjustment | | 19,429 | 19,525 |
| Retained earnings | | 391,915 | 353,220 |
| Total shareholders' equity | | 1,618,001 | 1,183,734 |
| Non-controlling interest | | 8,089 | 8,864 |
| Total equity | | 1,626,090 | 1,192,598 |
| Total liabilities and equity | | \$ 2,286,521 | \$ 1,687,662 |

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

Approved by the Board of Directors

David Berman

Michael Knowlton

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

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

| | Notes | For the three months ended | | For the nine months ended | |
|---|-----------|----------------------------|--------------------|---------------------------|--------------------|
| | | September 30, 2019 | September 30, 2018 | September 30, 2019 | September 30, 2018 |
| Revenue | | | | | |
| Contractual fees | 17, 18 | \$ 8,068 | \$ 6,897 | \$ 22,506 | \$ 18,383 |
| General partner distributions | 17, 18 | 273 | 372 | 790 | 1,081 |
| Performance fees | 17, 18 | 2,982 | 472 | 4,883 | 1,318 |
| | | 11,323 | 7,741 | 28,179 | 20,782 |
| Investment income | | | | | |
| Investment income – Tricon American Homes | 17, 18 | 35,958 | 53,650 | 119,742 | 180,773 |
| Investment income – Tricon Lifestyle Rentals | 17, 18 | 10,280 | 1,189 | 18,168 | 4,753 |
| Investment income – Tricon Housing Partners | 17, 18 | 1,109 | 3,309 | 6,682 | 9,506 |
| | | 47,347 | 58,148 | 144,592 | 195,032 |
| | | 58,670 | 65,889 | 172,771 | 215,814 |
| Expenses | | | | | |
| Compensation expense | 16 | 8,561 | 8,576 | 27,937 | 28,254 |
| General and administration expense | | 2,799 | 2,147 | 8,807 | 7,142 |
| Interest expense | 6 | 8,493 | 8,227 | 23,531 | 24,794 |
| Net change in fair value of derivative financial instruments and other liability | 8 | (3,134) | 629 | (4,309) | (19,097) |
| Loss on debt extinguishment | | – | 5,349 | – | 5,349 |
| Transaction costs | 4 | 2,102 | – | 28,913 | 180 |
| Amortization and depreciation expense | 10, 11 | 1,581 | 1,469 | 4,685 | 3,951 |
| Realized and unrealized foreign exchange loss (gain) | | 115 | 1,028 | 136 | (1,949) |
| | | 20,517 | 27,425 | 89,700 | 48,624 |
| Income before income taxes | | 38,153 | 38,464 | 83,071 | 167,190 |
| Income tax expense – current | 9 | (5,295) | (1,187) | (7,384) | (1,870) |
| Income tax expense – deferred | 9 | (401) | (3,451) | (6,811) | (15,389) |
| Net income from continuing operations | | \$ 32,457 | \$ 33,826 | \$ 68,876 | \$ 149,931 |
| Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities | 17, 18 | – | – | – | 21,170 |
| Income tax recovery from discontinued operations – deferred | 9 | – | – | – | 1,957 |
| Net income from discontinued operations | | \$ – | \$ – | \$ – | \$ 23,127 |
| Net income | | \$ 32,457 | \$ 33,826 | \$ 68,876 | \$ 173,058 |
| Attributable to: | | | | | |
| Shareholders of Tricon | | 31,658 | 33,599 | 67,506 | 172,853 |
| Non-controlling interest | | 799 | 227 | 1,370 | 205 |
| Net income | | \$ 32,457 | \$ 33,826 | \$ 68,876 | \$ 173,058 |
| Other comprehensive income | | | | | |
| <i>Items that will be reclassified subsequently to net income</i> | | | | | |
| Cumulative translation reserve | | 174 | (147) | (96) | 5 |
| Comprehensive income for the period | | \$ 32,631 | \$ 33,679 | \$ 68,780 | \$ 173,063 |
| Attributable to: | | | | | |
| Shareholders of Tricon | | \$ 31,832 | \$ 33,452 | \$ 67,410 | \$ 172,858 |
| Non-controlling interest | | 799 | 227 | 1,370 | 205 |
| Comprehensive income for the period | | \$ 32,631 | \$ 33,679 | \$ 68,780 | \$ 173,063 |
| Basic earnings per share attributable to shareholders of Tricon | | | | | |
| Continuing operations | 15 | \$ 0.16 | \$ 0.25 | \$ 0.41 | \$ 1.11 |
| Discontinued operations | 15 | – | – | – | 0.17 |
| Basic earnings per share attributable to shareholders of Tricon | 15 | \$ 0.16 | \$ 0.25 | \$ 0.41 | \$ 1.28 |
| Diluted earnings per share attributable to shareholders of Tricon | | | | | |
| Continuing operations | 15 | \$ 0.15 | \$ 0.24 | \$ 0.39 | \$ 0.92 |
| Discontinued operations | 15 | – | – | – | 0.14 |
| Diluted earnings per share attributable to shareholders of Tricon | 15 | \$ 0.15 | \$ 0.24 | \$ 0.39 | \$ 1.06 |
| Weighted average shares outstanding – basic | 15 | 195,182,431 | 135,066,491 | 165,111,005 | 134,619,881 |
| Weighted average shares outstanding – diluted | 15 | 213,371,947 | 153,776,332 | 183,413,037 | 161,875,071 |

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

Unaudited (in thousands of U.S. dollars)

| | Notes | Share capital | Share capital reserve | Contributed surplus | Cumulative translation adjustment | Retained earnings | Total shareholders' equity | Non-controlling interest | Total |
|--|-------|---------------|-----------------------|---------------------|-----------------------------------|-------------------|----------------------------|--------------------------|--------------|
| Balance at | | | | | | | | | |
| January 1, 2019 | | \$ 793,521 | \$ – | \$ 17,468 | \$ 19,525 | \$ 353,220 | \$ 1,183,734 | \$ 8,864 | \$ 1,192,598 |
| Net income | | – | – | – | – | 67,506 | 67,506 | 1,370 | 68,876 |
| Shares issued to acquire Starlight U.S. Multi-Family (No. 5) Core Fund | 4, 14 | 405,491 | (13,057) | – | – | – | 392,434 | – | 392,434 |
| Cumulative translation reserve | | – | – | – | (96) | – | (96) | – | (96) |
| Distributions to non-controlling interest | | – | – | – | – | – | – | (2,145) | (2,145) |
| Dividends/Dividend reinvestment plan | 13 | 2,645 | – | – | – | (28,119) | (25,474) | – | (25,474) |
| Repurchase of common shares | 14 | (3,067) | – | – | – | (692) | (3,759) | – | (3,759) |
| Debentures conversion | 14 | 100 | – | – | – | – | 100 | – | 100 |
| Stock options | 16 | 33 | – | 584 | – | – | 617 | – | 617 |
| Shares repurchased and reserved for restricted share awards | 16 | (38) | – | 137 | – | – | 99 | – | 99 |
| Deferred share units | 16 | 1,010 | – | 1,830 | – | – | 2,840 | – | 2,840 |
| Balance at | | | | | | | | | |
| September 30, 2019 | | \$ 1,199,695 | \$ (13,057) | \$ 20,019 | \$ 19,429 | \$ 391,915 | \$ 1,618,001 | \$ 8,089 | \$ 1,626,090 |
| Balance at | | | | | | | | | |
| January 1, 2018 | | \$ 713,553 | \$ – | \$ 16,754 | \$ 19,184 | \$ 167,849 | \$ 917,340 | \$ 10,955 | \$ 928,295 |
| Net income | | – | – | – | – | 172,853 | 172,853 | 205 | 173,058 |
| Cumulative translation reserve | | – | – | – | 5 | – | 5 | – | 5 |
| Distributions to non-controlling interest | | – | – | – | – | – | – | (1,656) | (1,656) |
| Dividends/Dividend reinvestment plan | 13 | 6,806 | – | – | – | (21,807) | (15,001) | – | (15,001) |
| Repurchase of common shares | 14 | (2,310) | – | – | – | (1,423) | (3,733) | – | (3,733) |
| Debentures conversion | 14 | 38,993 | – | – | – | – | 38,993 | – | 38,993 |
| Stock options | 16 | 470 | – | 879 | – | – | 1,349 | – | 1,349 |
| Deferred share units | 16 | 1,318 | – | 1,463 | – | – | 2,781 | – | 2,781 |
| Balance at | | | | | | | | | |
| September 30, 2018 | | \$ 758,830 | \$ – | \$ 19,096 | \$ 19,189 | \$ 317,472 | \$ 1,114,587 | \$ 9,504 | \$ 1,124,091 |

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

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

Unaudited (in thousands of U.S. dollars)

| For the nine months ended | Notes | September 30, 2019 | September 30, 2018 |
|---|--------|--------------------|--------------------|
| CASH PROVIDED BY (USED IN) | | | |
| Operating activities | | | |
| Net income | | \$ 68,876 | \$ 173,058 |
| Adjustments for non-cash items | | | |
| Amortization and depreciation expense | 10, 11 | 4,685 | 3,951 |
| Deferred income taxes | 9 | 6,811 | 13,432 |
| Long-term incentive plan | 16 | 2,897 | 4,394 |
| Annual incentive plan | 16 | 10,981 | 13,130 |
| Amortization of debentures discount and issuance costs | 6 | 3,196 | 4,937 |
| Accrued investment income – Tricon American Homes | 5 | (119,742) | (180,773) |
| Accrued investment income – Tricon Lifestyle Rentals | 5 | (18,168) | (4,753) |
| Accrued investment income – Tricon Housing Partners | 5 | (6,682) | (9,506) |
| Accrued investment income from discontinued operations – Tricon Lifestyle Communities | 5 | – | (21,170) |
| Net change in fair value of derivative financial instruments and other liability | 8 | (4,309) | (19,097) |
| Loss on debt extinguishment | | – | 5,349 |
| Unrealized foreign exchange gain | | (11,133) | (10,308) |
| Distributions to non-controlling interest | | (2,145) | (1,656) |
| Advances made to investments | 5 | (139,165) | (179,562) |
| Distributions received from investments | 5 | 93,496 | 112,179 |
| | | (110,402) | (96,395) |
| Changes in non-cash working capital items | 21 | 30,784 | (840) |
| Net cash (used in) provided by operating activities from continuing operations | | (79,618) | (97,235) |
| Advances made to investments held for sale | 5 | – | (304) |
| Proceeds from disposal of investments held for sale | 5 | – | 79,895 |
| Net cash (used in) provided by operating activities from discontinued operations | | – | 79,591 |
| Net cash (used in) provided by operating activities | | (79,618) | (17,644) |
| Investing activities | | | |
| Purchase of building, furniture, office and computer equipment, and leasehold improvements | 11 | (8,221) | (5,592) |
| Placement fees | 10 | – | (5,000) |
| Net cash (used in) provided by investing activities | | (8,221) | (10,592) |
| Financing activities | | | |
| Lease payments | 12, 22 | (133) | (60) |
| Repurchase of common shares | 14 | (3,759) | (3,733) |
| Equity issuance costs | 4, 14 | (223) | – |
| Debt financing, net | 6, 22 | 114,392 | 38,633 |
| Dividends paid | 13 | (22,617) | (14,644) |
| Net cash (used in) provided by financing activities | | 87,660 | 20,196 |
| Effect of foreign exchange rate difference on cash | | 14 | (53) |
| Change in cash during the period | | (165) | (8,093) |
| Cash – beginning of period | | 7,773 | 14,813 |
| Cash – end of period | | \$ 7,608 | \$ 6,720 |
| Supplementary information | | | |
| Cash paid on | | | |
| Income taxes | | \$ 837 | \$ 2,410 |
| Interest | | \$ 22,549 | \$ 23,477 |

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

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019
(in thousands of U.S. dollars, except per share amounts and percentage amounts)

1. NATURE OF BUSINESS

Tricon Capital Group Inc. (“Tricon” or the “Company”) is a residential real estate company primarily focused on rental housing in North America. Tricon invests in a portfolio of single-family rental homes, multi-family rental apartments and for-sale housing assets, and manages third-party capital in connection with its investments. As general partner, sponsor and/or manager of various private Investment Vehicles, the Company earns contractual fee revenue, namely asset management fees, general partner distributions, development fees and performance fees.

Tricon was incorporated on June 16, 1997 under the Business Corporations Act (Ontario) and its head office is located at 7 St. Thomas Street, Suite 801, Toronto, Ontario, M5S 2B7. The Company is domiciled in Canada. Tricon became a public company on May 20, 2010, and its common shares are listed on the Toronto Stock Exchange (“TSX”) (symbol: TCN).

These condensed interim consolidated financial statements were approved for issue on November 4, 2019 by the Board of Directors of Tricon.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies applied in the preparation of these condensed interim consolidated financial statements.

Basis of preparation and measurement

The condensed interim consolidated financial statements are prepared on a going-concern basis and have been presented in U.S. dollars, which is also the Company’s functional currency. All financial information is presented in thousands of U.S. dollars except where otherwise indicated.

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and the same significant accounting policies and methods as those used in the Company’s annual financial statements. They should be read in conjunction with the annual Audited Financial Statements for the year ended December 31, 2018, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under the historical cost convention, except for (i) investments in Tricon American Homes, Tricon Lifestyle Rentals and Tricon Housing Partners, and (ii) derivative financial instruments, which are recorded at fair value through profit or loss (“FVTPL”).

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

Effective January 1, 2019, the Company has adopted IFRIC Interpretation 23, Uncertainty over Income Tax Treatments (“IFRIC 23”) on a modified retrospective basis. IFRIC 23 clarifies how the requirements of IAS 12, Income Taxes, should be applied when there is uncertainty over income tax treatments. The adoption of IFRIC 23 did not have a significant impact on the Company’s consolidated financial statements.

There are no other standards, interpretations or amendments to existing standards that are not yet effective that are expected to have a material impact on the Company.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

3. INVESTMENTS

Investments – Tricon American Homes (“TAH”) are investments in U.S. single-family rental homes. The investments are managed through an integrated business platform managed by the operating entity, which is responsible for the acquisition, renovation and leasing of the homes.

Investments – Tricon Lifestyle Rentals (“TLR”) are investments in multi-family rental properties, including development assets and existing income-producing assets in Canada and the United States. TLR Canada’s investment objective is to add value through the development and construction process and ultimately generate stable cash flow from its portfolio of rental apartment buildings. TLR U.S. invests in and operates multi-family rental apartments, with a current focus largely on Class A garden-style apartments in the U.S. Sun Belt.

On June 11, 2019, the Company completed the acquisition of Starlight U.S. Multi-Family (No. 5) Core Fund, which owned a portfolio of 23 garden-style multi-family properties totalling 7,289 suites located primarily in the U.S. Sun Belt (see Note 4).

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

On September 17, 2019, the Company announced that it had entered into a joint venture arrangement (“THPAS JV-1”) with a leading institutional investor to target investments in master-planned communities and the development of single-family “build-to-rent” communities in U.S. Sun Belt markets. The total equity committed to this venture is \$450,000, including \$400,000 from the investor and \$50,000 from Tricon.

Until the second quarter of 2018, the Company had also invested in Tricon Lifestyle Communities (“TLC”) – Investments in manufactured housing communities, where land parcels were leased to owners of prefabricated homes. Investments in TLC were disposed of on June 29, 2018.

The Company makes these investments via equity investments and loan advances. Advances made to investments are added to the carrying value when paid; distributions from investments are deducted from the carrying value when received. The following is a summary of the composition of the Company’s investments:

| (in thousands of U.S. dollars) | September 30, 2019 | | | December 31, 2018 | | |
|---------------------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|---------------------|
| | Internal debt instruments | Equity | Total investment | Internal debt instruments | Equity | Total investment |
| Investments – TAH | | | | | | |
| TAH wholly-owned | \$ – | \$ 1,216,815 | \$ 1,216,815 | \$ – | \$ 1,099,086 | \$ 1,099,086 |
| TAH JV-1 | – | 112,038 | 112,038 | – | 46,135 | 46,135 |
| | – | 1,328,853 | 1,328,853 | – | 1,145,221 | 1,145,221 |
| Investments – TLR | | | | | | |
| TLR U.S. | – | 426,327 | 426,327 | – | – | – |
| TLR Canada | – | 84,856 | 84,856 | – | 70,199 | 70,199 |
| Assets held for sale within TLR | – | 20,138 | 20,138 | – | 59,639 | 59,639 |
| | – | 531,321 | 531,321 | – | 129,838 | 129,838 |
| Investments – THP | | | | | | |
| Commingled funds | – | 120,797 | 120,797 | – | 118,931 | 118,931 |
| Direct investments | – | 127,489 | 127,489 | – | 111,342 | 111,342 |
| Separate accounts and side-cars | 16,907 | 53,231 | 70,138 | 18,874 | 58,417 | 77,291 |
| | 16,907 | 301,517 | 318,424 | 18,874 | 288,690 | 307,564 |
| Total | \$ 16,907 | \$ 2,161,691 | \$ 2,178,598 | \$ 18,874 | \$ 1,563,749 | \$ 1,582,623 |

The underlying loan instruments within the Company’s THP investments, if utilized, are denominated in U.S. dollars and bear interest at rates between 9.95% and 11.95%, compounded monthly.

Each investment vertical may utilize debt in order to finance normal business operations, with the debt secured by the underlying assets of the related investment. The Company has provided specific guarantees to the lenders of the TAH warehouse facilities, the TLR Canada land loans and the TLR construction loans, on a non-recourse basis subject only to specific carved-out events in the case of TAH guarantees.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019
(in thousands of U.S. dollars, except per share amounts and percentage amounts)

The following tables summarize the balances in the investment funds that are managed by Tricon in connection with THP, presented in the functional currency of the fund:

| (in thousands of dollars) | | | | | | | | |
|---|----------|-------------------|-----------------------|---------------------|--------------|--------------------|---------------------|--|
| THP investments | Currency | Tricon commitment | Advances ¹ | Unfunded commitment | Project fees | Cash distributions | Total distributions | Investments at fair value ² |
| As at September 30, 2019³ | | | | | | | | |
| Total USD investments | USD | \$ 526,441 | \$ 503,491 | \$ 79,368 | \$ 35,438 | \$ 343,158 | \$ 378,596 | \$ 311,307 |
| Total CAD investments | CAD | 20,000 | 12,493 | 7,507 | – | 9,199 | 9,199 | 7,117 |
| Investments – THP | | | | | | | | \$ 318,424 |
| As at December 31, 2018³ | | | | | | | | |
| Total USD investments | USD | \$ 444,973 | \$ 471,674 | \$ 29,682 | \$ 30,680 | \$ 315,663 | \$ 346,343 | \$ 300,965 |
| Total CAD investments | CAD | 20,000 | 12,462 | 7,538 | – | 8,977 | 8,977 | 6,599 |
| Investments – THP | | | | | | | | \$ 307,564 |

(1) In certain cases, distributions received during the investment period can be recalled and re-advanced, leading to a higher advance amount than total commitment.

(2) Investments at fair value as of September 30, 2019 and December 31, 2018 are shown in thousands of U.S. dollars.

(3) Commitment, unfunded commitment, advances and distributions are shown in fund or separate account originating currency.

4. ACQUISITION OF STARLIGHT U.S. MULTI-FAMILY (NO. 5) CORE FUND

On June 11, 2019, the Company completed the acquisition of Starlight U.S. Multi-Family (No. 5) Core Fund (the “U.S. Multi-Family Portfolio”) by acquiring, among other things, all of the issued and outstanding limited partnership units of the U.S. Multi-Family Portfolio by issuing 50,779,311 Tricon common shares at \$7.99 (C\$10.60) per share, totalling \$405,714, in an all-share transaction (the “Transaction”).

In connection with the Transaction, the Company indirectly acquired the U.S. Multi-Family Portfolio’s 23 core-plus multi-family properties that were valued at approximately \$1.3 billion, net of associated deferred tax liability, and also assumed approximately \$920,000 of the U.S. Multi-Family Portfolio’s existing debt upon closing (Note 5).

The Company incurred \$25,765 of transaction costs in relation to the acquisition, of which \$25,542 were expensed (comprised of investment banking, consulting and other transitional services, legal, finance and tax, due diligence and other fees) and \$223 were charged directly to share capital in connection with the issuance of Tricon’s common shares. As at September 30, 2019, transaction costs of \$12,173 remained payable (Note 7).

As part of the Transaction, the Company entered into a put and call agreement with certain former unitholders of Starlight U.S. Multi-Family (No. 5) Core Fund (“Option Holders”) for an aggregate of 1,634,217 Tricon common shares. Under the terms of this agreement and the subsequent amendment agreed to on October 2, 2019, the Company has the right during the one-year period commencing on the six-month anniversary of the Transaction date to purchase from the Option Holders, as applicable, all or a portion of the put/call shares for an aggregate purchase price equal to the put/call price, which must be equal to or greater than C\$11.49 per share. Similarly, the Option Holders have the right to sell to the Company between January 31, 2020 and June 11, 2020 an amount of Tricon common shares equal in aggregate to the put/call shares for an aggregate purchase price equal to the put/call price. The put/call price per share is defined as the quoted market price of a Tricon common share on the put/call date.

On the Transaction date, the Company recognized a put liability measured at the fair value of its common shares of \$7.99 (C\$10.60) multiplied by the number of Tricon common shares that are subject to the put right noted above, totalling \$13,057. The put liability is classified as other liability and the corresponding share capital has been designated as a share capital reserve in the consolidated balance sheet in accordance with IAS 32, Financial Instruments: Presentation. The change in the value of the put liability is measured as the change during the period in the quoted market price of the Company’s common shares that are subject to the put right, and is recorded in the consolidated statement of comprehensive income (Note 8).

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

5. FAIR VALUE ESTIMATION

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

The following describes the categories within the fair value hierarchy:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

The following table provides information about financial assets and liabilities measured at fair value on the balance sheet and categorized by level according to the significance of the inputs used in making the measurements:

| (in thousands of U.S. dollars) | September 30, 2019 | | | December 31, 2018 | | |
|--|--------------------|-------------|---------------------|-------------------|-------------|---------------------|
| | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Financial assets | | | | | | |
| Investments – TAH | | | | | | |
| TAH wholly-owned | \$ – | \$ – | \$ 1,216,815 | \$ – | \$ – | \$ 1,099,086 |
| TAH JV-1 | – | – | 112,038 | – | – | 46,135 |
| | – | – | 1,328,853 | – | – | 1,145,221 |
| Investments – TLR | | | | | | |
| TLR U.S. | – | – | 426,327 | – | – | – |
| TLR Canada | – | – | 84,856 | – | – | 70,199 |
| Assets held for sale within TLR | – | – | 20,138 | – | – | 59,639 |
| | – | – | 531,321 | – | – | 129,838 |
| Investments – THP | – | – | 318,424 | – | – | 307,564 |
| | \$ – | \$ – | \$ 2,178,598 | \$ – | \$ – | \$ 1,582,623 |
| Financial liabilities | | | | | | |
| Derivative financial instruments (Note 8) | \$ – | \$ 147 | \$ – | \$ – | \$ 3,936 | \$ – |

There have been no transfers between levels for the nine months ended September 30, 2019.

Financial assets valuation methodologies

The Company's Valuation Committee is responsible for fair value measurements included in the financial statements, including Level 3 measurements. The valuation processes and results are reviewed and approved by the Valuation Committee at least once every quarter, in line with the Company's quarterly reporting dates. The Valuation Committee consists of individuals who are knowledgeable and have experience in the fair value techniques for the investments held by the Company. The Valuation Committee decides on the appropriate valuation methodologies for new investments and contemplates changes in the valuation methodology for existing investments. Additionally, the Valuation Committee analyzes the movements in each investment's value, which involves assessing the validity of the inputs applied in the valuation. Valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019
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The Company used the following techniques to determine the fair value measurements included in the financial statements categorized in Level 3:

Investments – Tricon American Homes

All of the Company's investments in TAH subsidiary entities are held through a wholly-owned subsidiary, Tricon SF Home Rental ULC, which also invests in a joint venture partnership ("TAH JV-1") as a limited partner. The fair value of the Company's investment in Tricon SF Home Rental ULC is calculated based on the underlying net assets' fair value. The fair value of the net assets of the various entities, including the investment in TAH JV-1, is based on a sum-of-the-parts approach, where assets and liabilities are measured at fair value individually.

The table below represents 100% of the assets and liabilities of TAH entities wholly-owned by the Company as well as TAH JV-1 operating entities. The third-party investors' 66.3% ownership interest in the TAH JV-1 operating entities is deducted as part of other net liabilities to arrive at the Company's investment in TAH.

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--------------------------------------|---------------------|---------------------|
| Fair value of managed homes | \$ 3,958,972 | \$ 3,327,404 |
| Debt | (2,330,797) | (2,046,433) |
| Other net liabilities ^{1,2} | (299,322) | (135,750) |
| Investments – TAH | \$ 1,328,853 | \$ 1,145,221 |

- (1) Other net liabilities include working capital of Tricon SF Home Rental ULC and its wholly-owned subsidiaries as well as TAH JV-1 working capital, partner-level debt and third-party investor interests.
- (2) Other net liabilities include a floating-rate partner-level subscription loan (the "TAH JV-1 subscription loan"). The loan has a balance of \$149,439 at September 30, 2019 (2018 – \$119,500) and a maturity date of August 2021. Tricon's proportionate share of the TAH JV-1 subscription loan balance at September 30, 2019 is \$50,311 (2018 – \$40,232).

Fair value of managed homes

Home values typically do not change materially in the short term, and capital expenditures generally do not significantly impact values in the first three to six months after purchase. As a result, homes acquired in the last two quarters are recorded at their purchase price plus the cost of capital expenditures, if applicable. Homes acquired prior to July 1, 2019 were valued at August 31, 2019. Management has assessed the impact of any market changes that have occurred subsequent to the date of valuation and has determined that values were valid at September 30, 2019.

As of September 30, 2019, TAH managed 19,962 homes, of which 15,500 were wholly-owned rental properties. During the nine months ended September 30, 2019, homes were valued using a combination of the Home Price Index ("HPI") and Broker Price Opinion ("BPO") valuation methodologies. The HPI is calculated based on a repeat-sales model using large real estate information databases compiled from public records. Twelve-month trailing HPI was used where the quarterly HPI change was determined by averaging the index movement over the past twelve months. The quarterly HPI change is then applied to the previously recorded fair value of the investment properties. The data used to fair value the rental properties is specific to the zip code in which the property is located. The HPI increase during the quarter was 0.6% compared to a 1.5% increase in the third quarter of 2018.

In addition to the investment properties generating rental income, a small percentage of the investment properties are held for sale ("for-sale homes"). These for-sale homes were originally purchased as rental properties but subsequently selected for sale through the investee's active asset management process. All for-sale homes are valued at fair value less costs to sell.

If the prices of single-family rental properties managed by TAH were to increase or decrease by 1% (December 31, 2018 – 1%), the impact on investments in TAH fair value at September 30, 2019 would be \$34,120 and (\$34,120), respectively (December 31, 2018 – \$30,987 and (\$30,987)).

The weighted average of the quarterly HPI change was 0.6%. If the change in the quarterly HPI increased or decreased by 0.5%, the impact on investments in TAH fair value at September 30, 2019 would be \$16,127 and (\$16,127), respectively (December 31, 2018 – \$13,542 and (\$13,542)).

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Debt

The fair value of external debt is based on a discounted cash flow model at a market rate of interest that TAH would have obtained for similar financing. It was determined that the carrying value of variable term loans approximates fair value, considering their variable interest terms.

The fair values of the fixed term loans were estimated by modelling the contractual cash flows required under the loans and discounting them back to their present values using market interest rate data and bid prices at the end of the period.

A summary of TAH's debt outstanding as of September 30, 2019 is as follows:

| (in thousands of U.S. dollars) | Effective interest rates | Maturity dates | Debt balance ³ | |
|---|--------------------------|----------------|---------------------------|---------------------|
| | | | September 30, 2019 | December 31, 2018 |
| Warehouse credit facility ¹ | LIBOR+2.65% | November 2019 | \$ 121,468 | \$ 100,546 |
| TAH JV-1 warehouse credit facility ^{2,3} | LIBOR+2.50% | October 2020 | 30,286 | 95,832 |
| Securitization loan, TAH 2016-1 | 3.59% | November 2021 | 358,239 | 361,440 |
| Securitization loan, TAH 2017-1 | 3.50% | September 2022 | 461,698 | 462,594 |
| Term loan | LIBOR+2.00% | October 2022 | 347,309 | 347,582 |
| Securitization loan, TAH 2017-2 | 3.58% | January 2024 | 364,574 | 364,574 |
| Securitization loan, TAH 2018-1 | 3.86% | May 2025 | 313,865 | 313,865 |
| Securitization loan, TAH JV-1 2019-1 ³ | 3.12% | March 2026 | 333,358 | – |
| Total debt at operating entities⁴ | | | \$ 2,330,797 | \$ 2,046,433 |

(1) The warehouse credit facility has a maximum borrowing capacity of \$150,000 and two one-year extension options.

(2) The TAH JV-1 warehouse credit facility has a maximum borrowing capacity of \$300,000 and a one-year extension option. Tricon's proportionate share of the TAH JV-1 warehouse credit facility balance at September 30, 2019 was \$10,196 (2018 – \$32,263).

(3) TAH JV-1 closed the TAH JV-1 2019-1 securitization loan on September 26, 2019. The transaction involved the issuance and sale of six classes of fixed-rate pass-through certificates with a weighted average coupon of 3.12% and a term to maturity of 6.5 years. The gross transaction proceeds represent approximately 70% of the value of the securitized portfolio. The certificates have a face amount of \$333,358 and approximately \$265,000 of the proceeds was used to pay down the existing TAH JV-1 warehouse credit facility. Tricon's proportionate share of the TAH JV-1 2019-1 securitization loan balance at September 30, 2019 was \$112,231 (2018 – nil).

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

As of September 30, 2019, TAH, and the Company where applicable as its sponsor, were in compliance with the financial covenants and other undertakings outlined in the loan agreements. The one-month LIBOR during the nine months ended September 30, 2019 ranged from 2.08% to 2.51%. If interest rates had been 50 basis points lower, with all other variables held constant, investment income in TAH for the nine months ended September 30, 2019 would have been \$1,947 (2018 – \$2,181) higher. If interest rates had been 50 basis points higher, with all other variables held constant, investment income in TAH for the nine months ended September 30, 2019 would have been \$971 (2018 – \$2,003) lower. TAH has interest rate caps on its floating-rate debt that limit exposure to interest rate increases.

Investments – Tricon Lifestyle Rentals

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

Tricon Lifestyle Rentals U.S.

The table below represents 100% of the assets and liabilities of the stabilized U.S. multi-family rental portfolio which is wholly-owned by Tricon.

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Fair value of properties, net of associated deferred tax liability ¹ | \$ 1,340,195 | \$ – |
| Debt | (917,840) | – |
| Other net assets ² | 3,972 | – |
| Investments – TLR U.S. | \$ 426,327 | \$ – |

(1) The fair value of the U.S. Multi-Family Portfolio's properties at September 30, 2019 approximates the fair value at the time of acquisition given the proximity of the acquisition to the valuation date.

(2) Other net assets include working capital of TLR Saturn Master LP and its wholly-owned subsidiaries.

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A summary of the TLR U.S. debt outstanding as of September 30, 2019 is as follows:

| (in thousands of U.S. dollars) | Effective interest rates | Maturity dates | Debt balance ¹ | |
|---|--------------------------|----------------|---------------------------|-------------------|
| | | | September 30, 2019 | December 31, 2018 |
| Credit facility | LIBOR+3.75% | December 2020 | \$ 117,390 | \$ – |
| Portfolio mortgage – Tranche A | LIBOR+1.15% | November 2023 | 160,090 | – |
| Portfolio mortgage – Tranche B | 3.92% | November 2024 | 400,225 | – |
| Portfolio mortgage – Tranche C | 3.95% | November 2025 | 240,135 | – |
| Total debt at operating entities | | | \$ 917,840 | \$ – |

(1) The fair value of debt at TLR U.S. approximates cost.

Tricon Lifestyle Rentals Canada

The table below represents 100% of the assets and liabilities of TLR Canada entities, including those project partnership entities not wholly-owned by Tricon. The third-party investors' ownership interests in the project partnerships is deducted as part of other net liabilities to arrive at Tricon's investment in TLR Canada.

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|------------------------------------|--------------------|-------------------|
| Fair value of properties | \$ 554,287 | \$ 448,968 |
| Debt ¹ | (196,905) | (137,831) |
| Other net liabilities ² | (272,526) | (240,938) |
| Investments – TLR Canada | \$ 84,856 | \$ 70,199 |

(1) The fair value of debt at TLR Canada approximates cost.

(2) Other net liabilities include working capital of Tricon Lifestyle Rentals Investment LP and its wholly-owned subsidiaries as well as project-level working capital and third-party investor interests.

Property values typically do not change materially in the short term, and development expenditures generally do not significantly impact values in the first twelve months after purchase. As a result, properties acquired within the past twelve months are recorded at their purchase price plus the cost of development expenditures.

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

| Description | Valuation technique(s) | Significant unobservable input | September 30, 2019 | | December 31, 2018 | | Other inputs and key information |
|-------------------|---|--|----------------------------|----------------------------|---------------------|----------------------------|--|
| | | | Range of inputs | Weighted average of inputs | Range of inputs | Weighted average of inputs | |
| TLR Canada | Waterfall distribution model Net asset value, determined using income approach | a) Discount rate ¹ b) Future cash flow ² c) Appraised value ³ | 6.0% – 8.0% 1 – 2 years | 6.8% 1.5 years | 6.0% 1 – 2 years | 6.0% 1.5 years | Entitlement risk, construction risk and leasing risk are taken into account in determining the discount rate. Price per square foot, timing of project funding requirements and distributions, stabilized net operating income. |

- Discount rates are applied to unlevered future cash flows. Generally, an increase in future cash flow will result in an increase in the fair value of the investments. An increase in the discount rate will result in a decrease in the fair value of the investments. The same percentage change in the discount rate will result in a greater change in fair value than the same absolute percentage change in future cash flow.
- Estimating future cash flows involves modelling developers' or projects' cash flows to determine the quantum and timing of project funding requirements and cash distributions. Estimates of cash flows are based on annual budgets and include estimates of construction and development costs, anticipated selling/leasing prices and absorption rates for each project. Future cash flows incorporate expected sales prices based on executed sales agreements as an indicator of market price, where applicable.
- On an annual basis, the Company obtains external valuations dated December 31 for certain TLR Canada investments. As at December 31, 2018, the external valuations for Tricon's interest in two TLR Canada investments totalled \$55,957. The Company's investment team and finance team verify all major inputs to the valuation and review the results with the independent appraiser. The significant inputs within the appraised value are stabilized revenues and expenses, discount rates and the value of land per square foot. Management has assessed whether any significant market changes have occurred subsequent to the date of valuation and has determined that the value remained largely unchanged at September 30, 2019.

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Sensitivity

For those investments valued using discounted cash flows, an increase of 1% in the discount rate results in a decrease in fair value of \$2,890 and a decrease of 1% in the discount rate results in an increase in fair value of \$3,172 (December 31, 2018 – (\$830) and \$849, respectively).

For those investments valued using appraised values, an increase of 5% in the appraised land value per square foot would result in an increase in fair value of \$883, and a decrease of 5% in the appraised land value per square foot would result in a decrease in fair value of \$883 (December 31, 2018 – \$860 and (\$860), respectively).

Assets held for sale within TLR

Quantitative information about fair value measurements of the investment assets held for sale uses the following significant unobservable inputs (Level 3):

| Description | Valuation technique(s) | Significant unobservable input | September 30, 2019 | | December 31, 2018 | | Other inputs and key information |
|--|--|---|--------------------|----------------------------|---------------------------------|----------------------------|--|
| | | | Range of inputs | Weighted average of inputs | Range of inputs | Weighted average of inputs | |
| Investment assets held for sale | Net asset value, determined using discounted cash flow | a) Discount rate ¹ b) Future cash flow ² | 12.5% 0.2 years | 12.5% 0.2 years | 12.0% – 13.0% 1 – 2 years | 12.5% 1.7 years | Leasing risk and sales risk are taken into account in determining the discount rate. |

- (1) Discount rates are applied to levered future cash flows. Generally, an increase in future cash flow will result in an increase in the fair value of the investments. An increase in the discount rate will result in a decrease in the fair value of the investments. The same percentage change in the discount rate will result in a greater change in fair value than the same absolute percentage change in future cash flow.
- (2) Estimating future cash flows involves modelling developers' or projects' cash flows to determine the quantum and timing of project funding requirements and cash distributions. Estimates of cash flows are based on annual budgets and include estimates of construction and development costs, anticipated selling/leasing prices and absorption rates for each project. Future cash flows incorporate expected sales prices based on executed sales agreements as an indicator of market price, where applicable.

Disposition of assets

On April 15, 2019, TLR completed the sale of its 90% interest in The McKenzie, a 183-unit purpose-built rental building in Dallas, Texas. TLR is on track to liquidate its last active U.S. development project, The Maxwell, in an orderly manner as part of the disposition plan of its existing TLR U.S. development holdings.

Investments – Tricon Housing Partners

Tricon establishes wholly-owned subsidiaries that invest in limited partnerships of commingled funds, separate accounts and side-cars. The investments are measured at fair value as determined by the Company's proportionate share of the fair value of each limited partnership's net assets at each measurement date.

For investments in commingled funds, the fair value of each limited partnership's net assets is determined by the waterfall distribution calculations specified in the relevant limited partnership agreement. The inputs into the waterfall distribution calculations include the fair value of the land development project and working capital held by the limited partnerships. The fair values of the land development projects are based on appraisals prepared by an external third-party valuator or on internal valuations.

A side-car is a co-investment vehicle under common sponsorship with a Tricon fund. Tricon's ownership interests in the side-cars are held through the Company's wholly-owned subsidiaries. A side-car generally participates in larger investment opportunities provided by the fund sponsor or general partner.

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

| Description | Valuation technique(s) | Significant unobservable input | September 30, 2019 | | December 31, 2018 | | Other inputs and key information |
|--|--|--|-------------------------------|--------------------------------|-------------------------------|--------------------------------|--|
| | | | Range of inputs | Weighted average of inputs | Range of inputs | Weighted average of inputs | |
| Commingled funds | Net asset value, determined using discounted cash flow | a) Discount rate ¹ b) Future cash flow ² | | | | | Entitlement risk, sales risk and construction risk are taken into account in determining the discount rate. U.S. funds: Lower of 20% and the expected return for the project, subsequently adjusted downward as development risk is mitigated over project life. Canadian funds: Discounted at contractual interest rate; may include contingent interest cash flows (received when developers' project returns exceed the underlying contractual interest), which are discounted using the same method as U.S. funds. |
| Equity investments | | | | | | | |
| U.S. funds | | | 12.5% – 20.0% 1 – 9 years | 14.6% 2.5 years | 20.0% 1 – 10 years | 14.6% 2.1 years | |
| Canadian funds | 8.0% – 18.0% 1 – 7 years | 10.1% 0.4 years | 8.0% – 18.0% 1 – 8 years | 10.1% 1.2 years | | | |
| Separate accounts, side-cars and direct investments | Waterfall distribution model | a) Discount rate ¹ b) Future cash flow ² c) Appraised value ³ | 12.5% – 24.0% 1 – 16 years | N/A ³ 13.5 years | 15.0% – 24.0% 1 – 17 years | N/A ³ 13.6 years | Entitlement risk, sales risk and construction risk are taken into account in determining the discount rate. Price per acre of land, timing of project funding requirements and distributions. |
| Equity or debt investments | | | | | | | |
| Debt investments | Net asset value, determined using discounted cash flow | a) Discount rate ¹ b) Future cash flow ² | 10.0% – 12.0% 2 – 5 years | 11.3% 4.7 years | 10.0% – 12.0% 2 – 6 years | 11.3% 5.1 years | Estimated probability of default |
| | | | | | | | |

- (1) Generally, an increase in future cash flow will result in an increase in the fair value of debt instruments and fund equity investments. An increase in the discount rate will result in a decrease in the fair value of debt instruments and fund equity investments. The same percentage change in the discount rate will result in a greater change in fair value than the same absolute percentage change in future cash flow.
- (2) Estimating future cash flows involves modelling developers' cash flows to determine the quantum and timing of project funding requirements and cash distributions to the investment vehicle. Estimates of developers' cash flows are based on detailed quarterly and annual budgets and include estimates of construction and development costs, anticipated selling prices and absorption rates for each project.
- (3) On an annual basis, the Company obtains external valuations for its separate account equity and side-car investments excluding THP US SP1 LP and THP US SP2 LP. As at December 31, 2018, the external valuations for Tricon's interest in eight separate account equity and side-car investments totalled \$45,645. The Company's investment team and finance team verify all major inputs to the valuation and review the results with the independent appraiser. Management has assessed whether any significant market changes have occurred subsequent to the date of valuation and has determined that the value remained largely unchanged at September 30, 2019.

Sensitivity

For those investments valued using discounted cash flows, an increase of 1% in the discount rate results in a decrease in fair value of \$3,240 and a decrease of 1% in the discount rate results in an increase in fair value of \$3,403 (December 31, 2018 – (\$3,856) and \$3,879, respectively).

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Disposition of investments – Tricon Lifestyle Communities

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

On June 29, 2018, TLC completed the sale of its 14 manufactured housing communities to an institutional asset manager for gross proceeds of \$172,500. The net proceeds to Tricon were \$85,186, which included \$83,548 in proceeds from the disposal and \$1,638 in reimbursement of expenses.

Continuity of investments

The following presents the changes in Level 3 instruments for the nine months ended September 30, 2019 and for the year ended December 31, 2018:

TAH

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|---------------------|---------------------|
| Opening balance | \$ 1,145,221 | \$ 884,115 |
| Advances made to investments | 79,890 | 170,174 |
| Distributions received from investments | (16,000) | (128,000) |
| Investment income | 119,742 | 218,932 |
| Ending balance | \$ 1,328,853 | \$ 1,145,221 |
| Unrealized fair value gain included in net income on investments still held | 119,742 | 218,932 |

TLR

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Opening balance | \$ 129,838 | \$ 89,225 |
| Non-cash acquisition of the Multi-Family Core Portfolio (Note 4) | 405,714 | – |
| Advances made to investments | 27,435 | 25,974 |
| Distributions received from investments | (49,834) | (767) |
| Investment income | 18,168 | 15,406 |
| Ending balance | \$ 531,321 | \$ 129,838 |
| Unrealized fair value gain included in net income on investments still held | 18,168 | 15,406 |

THP

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Opening balance | \$ 307,564 | \$ 306,637 |
| Advances made to investments | 31,840 | 8,938 |
| Distributions received from investments | (27,662) | (19,460) |
| Investment income | 6,682 | 11,449 |
| Ending balance | \$ 318,424 | \$ 307,564 |
| Unrealized fair value gain included in net income on investments still held | 6,682 | 11,449 |

Financial liabilities valuation methodologies

The Company's financial liabilities measured at FVTPL include derivative financial instruments related to conversion/redemption options on its convertible debentures. Derivative financial instruments related to the conversion and redemption features of the convertible debentures are valued using model calibration, as discussed in Note 8. Inputs to the valuation models 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.

The put liability is classified as other liability and is measured at the present value of the redemption amount, which equates to the quoted market price of Tricon's common shares as at the valuation date, as discussed in Note 8.

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Quantitative information about fair value measurements (Level 2) using significant observable inputs other than quoted prices included in Level 1 is as follows:

| 2022 convertible debentures | September 30, 2019 | December 31, 2018 |
|---------------------------------|--------------------|-------------------|
| Risk-free rate ¹ | 1.59% | 2.60% |
| Implied volatility ² | 19.22% | 22.35% |
| Dividend yield ³ | 2.76% | 2.89% |

(1) Risk-free rates were from the U.S. dollar swap curves matching the terms to maturity of the debentures.

(2) Implied volatility was computed from the trading volatility of the Company's stock over a comparable term to maturity and the volatility of USD/CAD exchange rates.

(3) Dividend yields were from the forecast dividend yields matching the terms to maturity of the debentures.

Cash, amounts receivable, amounts payable and accrued liabilities (including interest payable), dividends payable, and revolving term credit facility are measured at cost, since their carrying values are a reasonable approximation of fair value due to their short-term nature.

6. DEBT

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---------------------------------|--------------------|-------------------|
| Revolving term credit facility | \$ 320,000 | \$ 209,250 |
| Convertible debentures (Note 8) | 160,208 | 157,112 |
| Mortgages | 11,006 | 7,150 |
| Lease obligation (Note 12) | 1,120 | 1,204 |
| Total debt | \$ 492,334 | \$ 374,716 |

Revolving term credit facility

On July 31, 2019, the Company and its syndicate of lenders (comprised of Canadian and U.S. banks) completed an amendment and restatement of Tricon's corporate revolving credit facility (the "Facility"), increasing the total available credit facility by \$135,000 to \$500,000. The Facility amendment includes extending the maturity of the Facility to July 31, 2022, reducing interest rates by up to 50 basis points and reducing standby fees by up to 21.25 basis points, depending on the Company's senior funded debt-to-EBITDA ratio. The remaining key terms of the Facility remain substantially unchanged.

The Company has provided a general security agreement creating a first priority security interest on the assets of the Company. As part of the Facility, the Company has designated \$15,000 to issue letters of credit as security against contingent obligations related to its TLR Canada investments. As at September 30, 2019, the letters of credit outstanding were \$6,180 (C\$8,184), which expire on January 25, 2020.

During the nine months ended September 30, 2019, the minimum balance drawn on the Facility was \$209,250, and the maximum amount drawn was \$337,000.

Advances under the Facility are available by way of Prime, USBR and LIBOR loans as well as Banker's Acceptances. The applicable margin on advances is determined in reference to the senior funded debt-to-EBITDA ratio and is added to the applicable loan reference rate as follows: Prime and USBR loans range from 1.75% to 2.75% above the respective reference rate, and LIBOR loans and Banker's Acceptances range from 2.75% to 3.75% above the respective reference rate. Standby fees ranging from 60 to 85 basis points of the unutilized portion of the total commitment are payable, with reference to the senior funded debt-to-EBITDA ratio, on a quarterly basis. Total interest expense incurred under the Facility for the nine months ended September 30, 2019 amounted to \$12,638 (2018 – \$9,403), which includes standby charges of \$824 (2018 – \$995). The weighted average interest rate during the nine months ended September 30, 2019 was 5.98% (2018 – 5.42%).

The Facility agreement requires the Company to maintain the following covenants: (i) a senior funded debt-to-EBITDA ratio of 4.00:1 until November 15, 2019; 3.50:1 for each fiscal quarter ending between November 16, 2019 and December 31, 2021; and 3.25:1 for each fiscal quarter ending thereafter; (ii) a minimum interest coverage ratio of 1.40:1 for each fiscal quarter ending prior to December 31, 2021 and 1.50:1 for each fiscal quarter ending thereafter; and (iii) a consolidated total funded debt-to-capital not to exceed 55%. The Company was in compliance with each of the covenants of the Facility.

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Convertible debentures

The host liability component of the outstanding convertible debentures (the “2022 convertible debentures”) recognized on the consolidated balance sheets was calculated as follows:

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Principal amount outstanding ¹ | \$ 172,400 | \$ 172,500 |
| Less: Transaction costs (net of amortization) | (4,271) | (5,454) |
| Liability component on initial recognition | 168,129 | 167,046 |
| Debentures discount (net of amortization) | (7,921) | (9,934) |
| 2022 convertible debentures | \$ 160,208 | \$ 157,112 |

(1) In the first nine months of 2019, \$100 principal amount of 2022 convertible debentures was converted into 9,560 common shares.

The above carrying values were recognized at amortized cost after discounting the future interest and principal payments using the effective interest rates. The fair value of the host liability component of the 2022 convertible debentures was \$176,563 as of September 30, 2019 and \$168,994 as of December 31, 2018. The difference between the amortized cost and implied fair value is a result of the difference between the effective interest rate and the market interest rate for debt with similar terms.

Mortgage

The Company has a mortgage loan in connection with its head office in Toronto. The mortgage carries a fixed interest rate of 4.38% compounded semi-annually and matures on November 22, 2024. On September 19, 2019, the Company obtained a new mortgage loan of \$3,776 (C\$5,000) to purchase additional commercial condominium units within the Company’s existing head office building in Toronto. The new mortgage carries a fixed interest rate of 3.99% compounded semi-annually and matures on November 27, 2024. Total interest expense incurred on the mortgages for the nine months ended September 30, 2019 was \$238 (2018 – \$250). As at September 30, 2019, the outstanding principal amount was \$11,006 (C\$14,575). The Company was in compliance with the covenants and other undertakings outlined in the loan agreements.

The coupon/stated interest rates and effective interest rates are as follows:

| (in thousands of U.S. dollars) | Coupon/stated interest rates | Effective interest rates | Maturity dates | Debt balance | |
|--------------------------------|------------------------------|--------------------------|----------------|--------------------|-------------------|
| | | | | September 30, 2019 | December 31, 2018 |
| Fixed rate | | | | | |
| 2022 convertible debentures | 5.75% | 6.85% | 2022 | 160,208 | 157,112 |
| Mortgages ¹ | 4.25% | 4.30% | 2024 | 11,006 | 7,150 |
| Lease obligation | N/A | 5.60% | 2026 | 1,120 | 1,204 |
| Total fixed-rate debt | 5.62% | 6.68% | | \$ 172,334 | \$ 165,466 |
| Variable rate | | | | | |
| Revolving term credit facility | LIBOR+3.75% | 5.98% | 2022 | 320,000 | 209,250 |
| Total debt | | | | \$ 492,334 | \$ 374,716 |

(1) Includes both of the Company’s mortgage loans outstanding. Interest rates are presented as a weighted average based on loan principal.

The scheduled principal repayments and debt maturities are as follows:

| (in thousands of U.S. dollars) | Revolving term credit facility | Convertible debentures | Mortgages | Lease obligation | Total |
|---|--------------------------------|------------------------|-----------|------------------|-------------------|
| 2019 | \$ – | \$ – | \$ 67 | \$ 31 | \$ 98 |
| 2020 | – | – | 279 | 135 | 414 |
| 2021 | – | – | 291 | 148 | 439 |
| 2022 | 320,000 | 172,400 | 303 | 163 | 492,866 |
| 2023 | – | – | 316 | 179 | 495 |
| 2024 and thereafter | – | – | 9,750 | 464 | 10,214 |
| | 320,000 | 172,400 | 11,006 | 1,120 | 504,526 |
| Transaction costs (net of amortization) | | | | | (4,271) |
| Debentures discount (net of amortization) | | | | | (7,921) |
| Total debt | | | | | \$ 492,334 |

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Interest expense

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

| (in thousands of U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|----------------------------------|---|-----------------|--|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Credit facility interest | \$ 4,841 | \$ 3,220 | \$ 12,638 | \$ 9,403 |
| Debentures interest | 2,872 | 3,865 | 8,593 | 11,650 |
| Debentures discount amortization | 683 | 1,037 | 2,013 | 3,457 |
| Interest on lease obligation | 16 | 17 | 49 | 34 |
| Mortgages interest | 81 | 88 | 238 | 250 |
| Total interest expense | \$ 8,493 | \$ 8,227 | \$ 23,531 | \$ 24,794 |

7. AMOUNTS PAYABLE AND ACCRUED LIABILITIES

Amounts payable and accrued liabilities consist of trade payables and accrued liabilities, AIP liability, income taxes payable and interest payable, as follows:

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Trade payables and accrued liabilities ¹ | \$ 15,298 | \$ 1,898 |
| AIP liability (Note 16) | 9,671 | 1,227 |
| Income taxes payable | 4,721 | 59 |
| Interest payable | 1,054 | 3,245 |
| Total amounts payable and accrued liabilities | \$ 30,744 | \$ 6,429 |

(1) Trade payables and accrued liabilities include \$12,173 of transaction costs payable in relation to the acquisition of the U.S. Multi-Family Portfolio (Note 4).

8. DERIVATIVE FINANCIAL INSTRUMENTS AND OTHER LIABILITY

The conversion and redemption features of the convertible debentures are combined pursuant to IFRS 9, Financial Instruments: Recognition and Measurement, and are measured at fair value at each reporting period using model calibration. The conversion and redemption components were valued using a binomial pricing model and then the valued amount was calibrated to the traded price of the underlying debentures. The valuation model uses market-based inputs, including the spot price of the underlying equity, implied volatility of the equity and USD/CAD foreign exchange rates, risk-free rates from the U.S. dollar swap curves and dividend yields related to the equity. The valuation of the conversion and redemption components assumes that the debentures are held to maturity.

The put liability is measured at the present value of the redemption amount, which equates to the quoted market price of Tricon's common shares as at the valuation date.

The value attributed to the derivative financial instruments and other liability is shown below:

| (in thousands of U.S. dollars) | Derivative financial instruments | Other liability ¹ | Total |
|---|----------------------------------|------------------------------|------------------|
| September 30, 2019 | | | |
| Derivative financial instruments and other liability – beginning of period | \$ 3,936 | \$ – | \$ 3,936 |
| Put liability recognized | – | 13,057 | 13,057 |
| Fair value changes (based on market price) | (3,789) | (520) | (4,309) |
| Derivative financial instruments and other liability – end of period | \$ 147 | \$ 12,537 | \$ 12,684 |

(1) On June 11, 2019, the put liability of \$13,057 (C\$17,323) was recognized in connection with the put right on common shares issued to acquire Starlight U.S. Multi-Family (No. 5) Core Fund (Note 4). The put liability ending balance of C\$16,604 was translated to U.S. dollars at the period-end exchange rate.

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For the nine months ended September 30, 2019, the fair value of the embedded derivative payable on the 2022 convertible debentures decreased by \$3,789 and the fair value of the put liability decreased by \$520, which is reflected as income to the Company. The decrease in the value of the conversion option on the 2022 convertible debentures was primarily driven by a reduction in the time remaining until option expiration, among other things. The decrease in the fair value of the put right was mainly because of the decrease in the Company's share price between the issuance date of June 11, 2019 and the valuation date of September 30, 2019.

The assumed conversion of the 2022 convertible debentures was dilutive (2018 – dilutive) (Note 15); as a result, the shares issuable on conversion were included (2018 – included) in the weighted average diluted shares outstanding for the nine months ended September 30, 2019.

9. INCOME TAXES

| (in thousands of U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|---|-----------------|--|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Income tax expense – current | \$ 5,295 | \$ 1,187 | \$ 7,384 | \$ 1,870 |
| Income tax expense – deferred | 401 | 3,451 | 6,811 | 15,389 |
| Income tax expense from continuing operations | \$ 5,696 | \$ 4,638 | \$ 14,195 | \$ 17,259 |
| Income tax recovery from discontinued operations | – | – | – | (1,957) |
| Income tax expense | \$ 5,696 | \$ 4,638 | \$ 14,195 | \$ 15,302 |

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

| (in thousands of U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|--|---|-----------------|--|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Income before income taxes from continuing operations | \$ 38,153 | \$ 38,464 | \$ 83,071 | \$ 167,190 |
| Combined statutory federal and provincial income tax rate | 26.50% | 26.50% | 26.50% | 26.50% |
| Expected income tax expense | 10,111 | 10,193 | 22,014 | 44,305 |
| Non-taxable gains on investments | (5,695) | (7,315) | (16,983) | (23,969) |
| Non-taxable (gains) losses on derivative financial instruments | (831) | 167 | (1,142) | (5,061) |
| Foreign tax rate differential | (216) | (21) | (360) | (366) |
| Other, including permanent differences ⁽¹⁾ | 2,327 | 1,614 | 10,666 | 2,350 |
| Income tax expense from continuing operations | \$ 5,696 | \$ 4,638 | \$ 14,195 | \$ 17,259 |

(1) Other permanent differences are comprised of non-deductible share compensation, non-deductible debentures discount amortization and reserves provided against the transaction costs deduction in relation to the acquisition of Starlight U.S. Multi-Family (No. 5) Core Fund.

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

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Deferred income tax assets | | |
| Deferred income tax assets to be recovered after more than 12 months | \$ 39,423 | \$ 34,109 |
| Deferred income tax assets to be recovered within 12 months | 2,694 | 2,026 |
| Total deferred income tax assets | \$ 42,117 | \$ 36,135 |
| Deferred income tax liabilities | | |
| Deferred income tax liabilities reversing after more than 12 months | \$ 92,625 | \$ 80,189 |
| Deferred income tax liabilities reversing within 12 months | 982 | 1,037 |
| Total deferred income tax liabilities | \$ 93,607 | \$ 81,226 |

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

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Change in net deferred income tax liabilities | | |
| Net deferred income tax liabilities – beginning of period | \$ 45,091 | \$ 23,990 |
| Charge to the statement of comprehensive income | 6,811 | 20,161 |
| Other | (412) | 940 |
| Net deferred income tax liabilities – end of period | \$ 51,490 | \$ 45,091 |

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

| (in thousands of U.S. dollars) | Long-term incentive plan accrual | Issuance costs | Net operating losses | Other | Total |
|-----------------------------------|--|-------------------|-------------------------|-----------------|------------------|
| Deferred income tax assets | | | | | |
| At December 31, 2018 | \$ 5,944 | \$ 1,930 | \$ 26,379 | \$ 1,882 | \$ 36,135 |
| Addition/(reversal) | 198 | (647) | 5,979 | 452 | 5,982 |
| At September 30, 2019 | \$ 6,142 | \$ 1,283 | \$ 32,358 | \$ 2,334 | \$ 42,117 |

| (in thousands of U.S. dollars) | Investments | Convertible debentures | Deferred placement fees | Other | Total |
|--|------------------|---------------------------|----------------------------|-------------|------------------|
| Deferred income tax liabilities | | | | | |
| At December 31, 2018 | \$ 79,747 | \$ 182 | \$ 1,297 | \$ – | \$ 81,226 |
| Addition/(reversal) | 12,558 | 2 | (179) | – | 12,381 |
| At September 30, 2019 | \$ 92,305 | \$ 184 | \$ 1,118 | \$ – | \$ 93,607 |

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

10. INTANGIBLE ASSETS

The intangible assets are as follows:

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|----------------------------------|--------------------|-------------------|
| Placement fees | \$ 4,996 | \$ 5,735 |
| Rights to performance fees | 16 | 65 |
| Customer relationship intangible | 3,858 | 4,245 |
| Contractual development fees | 8,606 | 10,688 |
| Total intangible assets | \$ 17,476 | \$ 20,733 |

Intangible assets represent future management fees, development fees and commissions that Tricon expects to receive over the life of the investments that the Company manages. They are amortized by investment over the estimated periods that the Company expects to collect these fees, which range from 2 to 13 years. Amortization expense for the nine months ended September 30, 2019 was \$3,257 (2018 – \$3,187).

There were no impairments to placement fees and rights to performance fees for the nine months ended September 30, 2019 and September 30, 2018.

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11. OTHER ASSETS

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Building | \$ 22,410 | \$ 15,540 |
| Furniture, computer and office equipment | 4,335 | 4,247 |
| Right-of-use asset (Note 12) | 1,026 | 1,140 |
| Leasehold improvements | 448 | 499 |
| Goodwill | 219 | 219 |
| Total other assets | \$ 28,438 | \$ 21,645 |

In the third quarter of 2019, the Company acquired additional commercial condominium units at 7 St. Thomas Street, Toronto for its own use. The costs of the new units include purchase price and development expenditures totalling \$6,641 (C\$8,818). Depreciation expense for the nine months ended September 30, 2019 was \$1,428 (2018 – \$764).

12. LEASE OBLIGATION

On April 1, 2018, the Company entered into an agreement to lease office space at 260 California Street, San Francisco. The right-of-use asset and the corresponding lease obligation related to the office lease were initially recognized at \$1,256 on April 1, 2018.

As at September 30, 2019, the carrying value of the Company's lease obligation was \$1,120 (December 31, 2018 – \$1,204) and the carrying value of the right-of-use asset was \$1,026. During the nine months ended September 30, 2019, the Company incurred interest expense of \$49 (2018 – \$34) related to the lease obligation and depreciation expense of \$114 (2018 – \$72) on the right-of-use asset.

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

| (in thousands of U.S. dollars) | |
|---|-----------------|
| 2019 | \$ 47 |
| 2020 | 192 |
| 2021 | 198 |
| 2022 | 204 |
| 2023 | 210 |
| 2024 and thereafter | 495 |
| Minimum lease payments obligation | 1,346 |
| Imputed interest included in minimum lease payments | (226) |
| Lease obligation | \$ 1,120 |

Note: The portion of the lease obligation payable in 2019 is \$31.

13. DIVIDENDS

| (in thousands of dollars, except per share amounts) | | | Common shares outstanding | Dividend amount per share | | Total dividend amount | | Dividend reinvestment plan ("DRIP") | |
|---|--------------------|------------------|------------------------------|------------------------------|------------------|-----------------------|------------------|--|------------------|
| Date of declaration | Record date | Payment date | | CAD | USD ¹ | CAD | USD ¹ | CAD | USD ² |
| February 25, 2019 | March 31, 2019 | April 15, 2019 | 143,442,251 | \$ 0.070 | \$ 0.052 | \$ 10,041 | \$ 7,514 | \$ 1,159 | \$ 870 |
| May 6, 2019 | June 30, 2019 | July 15, 2019 | 194,389,386 | 0.070 | 0.053 | 13,607 | 10,398 | 1,097 | 842 |
| August 6, 2019 | September 30, 2019 | October 15, 2019 | 194,044,544 | 0.070 | 0.053 | 13,583 | 10,257 | 1,517 | 1,148 |
| | | | | | | \$ 37,231 | \$ 28,169 | \$ 3,773 | \$ 2,860 |
| February 27, 2018 | March 31, 2018 | April 16, 2018 | 133,556,334 | \$ 0.070 | \$ 0.054 | \$ 9,349 | \$ 7,246 | \$ 2,597 | \$ 2,061 |
| May 9, 2018 | June 30, 2018 | July 16, 2018 | 133,849,419 | 0.070 | 0.053 | 9,369 | 7,115 | 3,046 | 2,319 |
| August 8, 2018 | September 30, 2018 | October 15, 2018 | 138,744,258 | 0.070 | 0.054 | 9,712 | 7,446 | 3,043 | 2,332 |
| November 6, 2018 | December 31, 2018 | January 15, 2019 | 143,246,968 | 0.070 | 0.051 | 10,027 | 7,350 | 1,273 | 933 |
| | | | | | | \$ 38,457 | \$ 29,157 | \$ 9,959 | \$ 7,645 |

(1) Dividends are issued and paid in Canadian dollars. For reporting purposes, amounts recorded in equity are translated to U.S. dollars using the daily exchange rate on the date of record. Dividends payable of \$10,257 recorded on the Company's balance sheet are translated to U.S. dollars using the period-end exchange rate and include \$13 related to restricted shares.

(2) Dividends reinvested are translated to U.S. dollars using the daily exchange rate on the date common shares are issued.

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The Company has a Dividend Reinvestment Plan (“DRIP”) under which eligible shareholders may elect to have their cash dividends automatically reinvested into additional common shares. These additional shares are issued from treasury (or purchased in the open market) at a discount, in the case of treasury issuances, of up to 5% (1% in the current quarter) of the Average Market Price, as defined under the DRIP, of the common shares as of the dividend payment date. If common shares are purchased in the open market, they are priced at the average weighted cost to the Company of the shares purchased.

Brokerage, commissions and service fees are not charged to shareholders for purchases or withdrawals of the Company’s shares under the DRIP, and all DRIP administrative costs are assumed by the Company.

For the nine months ended September 30, 2019, 346,323 common shares were issued under the DRIP (2018 – 850,755) for a total amount of \$2,645 (2018 – \$6,806).

14. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares. The common shares of the Company do not have par value.

As of September 30, 2019, there were 194,044,544 common shares issued by the Company (December 31, 2018 – 143,246,968), of which 193,803,888 were outstanding (December 31, 2018 – 143,011,130) and 240,656 shares were reserved to settle restricted share awards in accordance with the Company’s Restricted Share Plan (Note 16).

| (in thousands of dollars) | September 30, 2019 | | | December 31, 2018 | | |
|--|---------------------------------------|---------------------|---------------------|---------------------------------------|-------------------|-------------------|
| | Number of shares issued (repurchased) | Share capital | | Number of shares issued (repurchased) | Share capital | |
| | | USD | CAD | | USD | CAD |
| Beginning balance | 143,011,130 | \$ 793,521 | \$ 988,711 | 133,472,861 | \$ 713,553 | \$ 885,310 |
| Shares issued to acquire | | | | | | |
| Starlight U.S. Multi-Family (No. 5) Core Fund ¹ | 50,779,311 | 405,491 | 537,967 | – | – | – |
| Shares issued under DRIP ² | 346,323 | 2,645 | 3,529 | 1,147,704 | 9,138 | 11,720 |
| Stock options exercised ³ | 10,884 | 33 | 44 | 70,320 | 470 | 593 |
| Normal course issuer bid (NCIB) ⁴ | (495,402) | (3,067) | (3,906) | (431,931) | (2,310) | (2,865) |
| Deferred share units exercised ⁵ | 146,900 | 1,010 | 1,328 | 292,475 | 2,268 | 2,962 |
| Debentures conversion | 9,560 | 100 | 135 | 8,695,539 | 72,125 | 93,301 |
| Shares repurchased and reserved for restricted share awards ⁶ | (4,818) | (38) | (50) | (235,838) | (1,723) | (2,310) |
| Ending balance | 193,803,888 | \$ 1,199,695 | \$ 1,527,758 | 143,011,130 | \$ 793,521 | \$ 988,711 |

(1) On June 11, 2019, 50,779,311 common shares were issued at a price of \$7.99 (C\$10.60) to fund the acquisition of all of the issued and outstanding limited partnership units of Starlight U.S. Multi-Family (No. 5) Core Fund (Note 4). The total share capital issued was offset by \$223 of equity issuance costs.

(2) In the first nine months of 2019, 346,323 common shares were issued under the DRIP at an average price of \$7.64 (C\$10.19) per share.

(3) In the first nine months of 2019, 32,750 vested stock options were exercised and settled by issuing 10,884 common shares.

(4) On July 10, 2019, the Company announced that the Toronto Stock Exchange had approved its notice of intention to make a normal course issuer bid (NCIB) to repurchase up to 2,000,000 of its common shares during the twelve-month period ending July 14, 2020. In the third quarter of 2019, the Company repurchased 495,402 of its common shares for \$3,759 (C\$4,944), which reduced share capital and retained earnings by \$3,067 and \$692, respectively. Common shares that were purchased under the NCIB were cancelled by the Company.

(5) In the first nine months of 2019, 146,900 common shares were issued for deferred share units (DSUs) redeemed at an average price of \$6.88 (C\$9.04) per share.

(6) In the first nine months of 2019, 4,818 shares were reserved at \$7.89 (C\$10.38) per share in accordance with the DRIP with respect to restricted share awards granted to employees in 2018. The restricted shares will vest on the 12th anniversary of the grant date.

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15. EARNINGS PER SHARE

Basic

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

| (in thousands of U.S. dollars, except per share amounts which are in U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|----------------|--|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income attributable to shareholders of Tricon from continuing operations | \$ 31,658 | \$ 33,599 | \$ 67,506 | \$ 149,726 |
| Net income attributable to shareholders of Tricon from discontinued operations | – | – | – | 23,127 |
| Net income attributable to shareholders of Tricon | \$ 31,658 | \$ 33,599 | \$ 67,506 | \$ 172,853 |
| Weighted average number of common shares outstanding | 193,987,287 | 134,322,000 | 163,915,861 | 133,875,390 |
| Adjustments for vested units | 1,195,144 | 744,491 | 1,195,144 | 744,491 |
| Weighted average number of common shares outstanding for basic earnings per share | 195,182,431 | 135,066,491 | 165,111,005 | 134,619,881 |
| Basic earnings per share | | | | |
| Continuing operations | \$ 0.16 | \$ 0.25 | \$ 0.41 | \$ 1.11 |
| Discontinued operations | – | – | – | 0.17 |
| Basic earnings per share | \$ 0.16 | \$ 0.25 | \$ 0.41 | \$ 1.28 |

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of shares outstanding to assume conversion of all potentially dilutive shares. The Company has four categories of potentially dilutive shares: stock options, restricted shares (Note 16), deferred share units (Note 16) and convertible debentures (Note 8). For the stock options, restricted shares and deferred share units, the number of dilutive shares is based on the number of shares that could have been acquired at fair value with the assumed proceeds, if any, from their exercise (determined using the average market price of the Company's shares for the period then ended). For the convertible debentures, the number of dilutive shares is based on the number of common shares into which the elected amount would then be convertible. The number of shares calculated as described above is comparable to the number of shares that would have been issued assuming the vesting of the stock compensation arrangement and conversion of debentures.

Stock options, restricted shares and deferred share units

For the three months ended September 30, 2019, the Company's stock compensation plans resulted in 1,707,679 dilutive share units (2018 – 2,218,444) as the exercise price of the potential share units is below the average market share price of \$7.60 (C\$10.04) for the period.

For the nine months ended September 30, 2019, the Company's stock compensation plans resulted in 1,815,012 dilutive share units (2018 – 2,094,509), given that it would be advantageous to the holders to exercise their conversion rights, as the exercise prices of these potential shares are below the Company's average market share price of \$7.86 (C\$10.45) for the period.

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Convertible debentures

For the three and nine months ended September 30, 2019, the Company's 2022 convertible debentures were dilutive, as debentures interest expense, net of tax, and the net change in fair value of derivative financial instruments would result in decreased earnings per share upon conversion. Therefore, in computing the diluted weighted average shares outstanding and the associated earnings per share amount for the three and nine months ended September 30, 2019, the impact of the 2022 convertible debentures was included (2018 – the 2020 convertible debentures were excluded and the 2022 convertible debentures were included for the three months ended September 30, 2018 and both were included for the nine months ended September 30, 2018).

| (in thousands of U.S. dollars, except per share amounts which are in U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|----------------|--|----------------|
| | 2019 | 2018 | 2019 | 2018 |
| Net income attributable to shareholders of Tricon from continuing operations | \$ 31,658 | \$ 33,599 | \$ 67,506 | \$ 149,726 |
| Adjustment for convertible debentures interest expense – net of tax | 2,794 | 2,712 | 8,329 | 12,020 |
| Adjustment for loss on debt extinguishment – net of tax | – | – | – | 5,102 |
| Net change in fair value of financial instruments through profit or loss | (3,185) | 605 | (3,789) | (19,097) |
| Adjusted net income attributable to shareholders of Tricon from continuing operations | 31,267 | 36,916 | 72,046 | 147,751 |
| Net income attributable to shareholders of Tricon from discontinued operations | – | – | – | 23,127 |
| Adjusted net income attributable to shareholders of Tricon | \$ 31,267 | \$ 36,916 | \$ 72,046 | \$ 170,878 |
| Weighted average number of common shares outstanding | 195,182,431 | 135,066,491 | 165,111,005 | 134,619,881 |
| Adjustments for stock compensation | 1,707,679 | 2,218,444 | 1,815,012 | 2,094,509 |
| Adjustments for convertible debentures | 16,481,837 | 16,491,397 | 16,487,020 | 25,160,681 |
| Weighted average number of common shares outstanding for diluted earnings per share | 213,371,947 | 153,776,332 | 183,413,037 | 161,875,071 |
| Diluted earnings per share | | | | |
| Continuing operations | \$ 0.15 | \$ 0.24 | \$ 0.39 | \$ 0.92 |
| Discontinued operations | – | – | – | 0.14 |
| Diluted earnings per share | \$ 0.15 | \$ 0.24 | \$ 0.39 | \$ 1.06 |

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16. COMPENSATION EXPENSE

The breakdown of compensation expense, including the annual incentive plan ("AIP") and long-term incentive plan ("LTIP") related to various compensation arrangements, is set out below. AIP awards include both short-term (cash and one-year DSUs) and long-term (three-year DSUs, stock options, restricted shares, and PSUs) incentives.

| (in thousands of U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|-----------------------------------|---|-----------------|--|------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Salaries and benefits | \$ 4,520 | \$ 3,485 | \$ 14,059 | \$ 10,730 |
| Annual incentive plan ("AIP") | 3,537 | 4,161 | 10,981 | 13,130 |
| Long-term incentive plan ("LTIP") | 504 | 930 | 2,897 | 4,394 |
| Total compensation expense | \$ 8,561 | \$ 8,576 | \$ 27,937 | \$ 28,254 |

| (in thousands of U.S. dollars) | For the three months ended September 30 | | 2018 | |
|--|---|---------------|-----------------|---------------|
| | 2019 | LTIP | AIP | LTIP |
| Cash component | \$ 2,670 | \$ 75 | \$ 2,725 | \$ 283 |
| Share units | 722 | 213 | 1,400 | 313 |
| Stock options | 46 | 160 | – | 309 |
| DRIP and revaluation loss ¹ | 99 | 56 | 36 | 25 |
| Total AIP and LTIP expenses | \$ 3,537 | \$ 504 | \$ 4,161 | \$ 930 |

| (in thousands of U.S. dollars) | For the nine months ended September 30 | | 2018 | |
|--|--|-----------------|------------------|-----------------|
| | 2019 | LTIP | AIP | LTIP |
| Cash component | \$ 7,712 | \$ 1,526 | \$ 9,100 | \$ 2,375 |
| Restricted shares and share units | 2,864 | 741 | 3,900 | 933 |
| Stock options | 129 | 467 | – | 925 |
| DRIP and revaluation loss ¹ | 276 | 163 | 130 | 161 |
| Total AIP and LTIP expenses | \$ 10,981 | \$ 2,897 | \$ 13,130 | \$ 4,394 |

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

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

Cash component

AIP – The Company's AIP provides for an aggregate bonus pool based on the sum of all employees' individual AIP targets. The portion of the pool attributable to senior executive management is market-benchmarked and subject to an adjustment factor, as approved by the Board, of between 50% and 150%, based on achievement of Company performance objectives determined by the Board at the beginning of each year. The final pool is then allocated among employees based on individual and collective performance. AIP awards will be made in cash and equity-based grants, with the proportion of equity-based awards being correlated to the seniority of an individual's role within the Company.

For the nine months ended September 30, 2019, the Company recognized \$10,705 (2018 – \$13,000) in relation to the AIP expense, of which \$7,712 will be settled in cash in December 2019.

LTIP – A liability for cash-component LTIP awards is accrued based on expected performance fees that would be generated from the fair value of the assets within each fund or separate account but disbursed only when such performance fees are earned and recognized as revenue. Changes in LTIP are primarily caused by changes to fair values of fund or separate account assets, which result from timing and cash flow changes at the project level of each fund or separate account, and changing business conditions.

For the nine months ended September 30, 2019, the Company increased its accrual related to cash-component LTIP by \$1,526 (2018 – increase of \$2,375) as a result of an increase in expected future performance fees from Investment Vehicles that will be paid to management when cash is received from each investment over time.

Restricted shares and share units

AIP – For the nine months ended September 30, 2019, the Company recognized \$2,864 in equity-based AIP expense (2018 – \$3,900), of which \$1,966 will be granted in performance share units (PSUs), deferred share units (DSUs) and stock options in December 2019. The remaining \$898 relates to the amortization of PSUs and DSUs granted in the prior year. PSUs are revalued at each reporting date as the total liability amount is dependent on the Company's share price.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019
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LTIP – For the nine months ended September 30, 2019, the Company accrued \$741 in LTIP expense (2018 – \$933) relating to investment income from THP1 US that is paid in DSUs vesting in equal tranches over a three-year period commencing on the anniversary date of each grant, pursuant to the LTIP as amended on May 6, 2019. Compensation expense related to the grants is recognized on a graded vesting basis and for the nine months ended September 30, 2019 is comprised of \$240 relating to the current-year entitlements and \$501 relating to the prior-year entitlements.

Stock option plan

For the nine months ended September 30, 2019, no stock options were granted (2018 – nil), and 32,750 stock options were exercised (2018 – 92,500) (Note 14). For the nine months ended September 30, 2019, the Company recorded a stock option expense of \$596 (2018 – \$925).

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

| | For the three months ended September 30, 2019 | | For the year ended December 31, 2018 | |
|-------------------------------------|--|--|---|--|
| | Number of options | Weighted average exercise price (CAD) | Number of options | Weighted average exercise price (CAD) |
| Opening balance – outstanding | 4,823,960 | \$ 9.18 | 4,491,001 | \$ 9.08 |
| Granted | – | – | 426,959 | 9.81 |
| Exercised | (32,750) | 7.00 | (92,500) | 7.50 |
| Forfeited | (11,500) | 10.57 | (1,500) | 10.57 |
| Ending balance – outstanding | 4,779,710 | \$ 9.19 | 4,823,960 | \$ 9.18 |

| Grant date | Expiration date | September 30, 2019 | | |
|-------------------|-------------------|------------------------|------------------------|---|
| | | Options outstanding | Options exercisable | Exercise price on outstanding options (CAD) |
| May 19, 2010 | May 19, 2020 | 521,000 | 521,000 | \$ 6.00 |
| August 3, 2010 | August 3, 2020 | 49,000 | 49,000 | 5.26 |
| November 22, 2011 | November 22, 2020 | 20,000 | 20,000 | 4.16 |
| May 17, 2013 | May 17, 2020 | 564,000 | 564,000 | 6.81 |
| November 25, 2013 | November 25, 2020 | 141,917 | 141,917 | 7.74 |
| March 16, 2015 | March 16, 2020 | 520,166 | 520,166 | 10.57 |
| November 17, 2015 | November 17, 2020 | 756,668 | 756,668 | 10.03 |
| November 14, 2016 | November 14, 2023 | 790,000 | 519,998 | 8.85 |
| December 15, 2017 | December 15, 2024 | 990,000 | 346,661 | 11.35 |
| December 17, 2018 | December 17, 2025 | 426,959 | – | 9.81 |
| Total | | 4,779,710 | 3,439,410 | \$ 9.19 |

AIP liability is recorded within amounts payable and accrued liabilities, and the equity component is included in the contributed surplus. The breakdown is presented below.

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--|--------------------|-------------------|
| Amounts payable and accrued liabilities (Note 7) | \$ 9,671 | \$ 1,227 |
| Equity – contributed surplus | 7,089 | 5,319 |
| Total AIP | \$ 16,760 | \$ 6,546 |

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

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|--------------------------------|--------------------|-------------------|
| LTIP – liability | \$ 20,805 | \$ 21,407 |
| Equity – contributed surplus | 11,749 | 11,031 |
| Total LTIP | \$ 32,554 | \$ 32,438 |

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

17. SEGMENTED INFORMATION

In accordance with IFRS 8, Operating Segments, the Company discloses information about its reportable segments based upon the measures used by management in assessing the performance of those reportable segments. The Company evaluates segment performance based on the revenue and investment income of each investment vertical.

The corporate headquarters provides support functions in the areas of accounting, treasury, information technology, legal, and human resources, and therefore, it does not represent an operating segment. Such corporate expenses have been included below to provide a reconciliation to the overall results in accordance with IFRS 8.

The Company does not report balance sheet information by segment because that information is not used to evaluate performance or allocate resources between segments.

As a result of the acquisition of Starlight U.S. Multi-Family (No. 5) Core Fund in the second quarter of 2019, the Company now has five reportable segments as follows: principal investing in Tricon American Homes (“TAH”), Tricon Lifestyle Rentals U.S. (“TLR U.S.”), Tricon Lifestyle Rentals Canada (“TLR Canada”), Tricon Housing Partners (“THP”) and Private Funds and Advisory (“PF&A”). The reportable segments are business units offering different products and services, and are managed separately due to their distinct investment natures. These five reportable segments have been determined by the Company’s chief operating decision makers. Investment income from TLR assets held for sale is not included in any individual reportable segment in assessing segment performance, and is instead included in the corporate column below to provide a reconciliation to overall results.

(in thousands of U.S. dollars)

For the three months ended
September 30, 2019

| | TAH | TLR U.S. | TLR Canada | THP | PF&A | Corporate ² | Total |
|--|------------------|-----------------|---------------|-----------------|------------------|------------------------|------------------|
| Revenue | \$ – | \$ – | \$ – | \$ – | \$ 11,323 | \$ – | \$ 11,323 |
| Investment income | 35,958 | 5,499 | 378 | 1,109 | – | 4,403 | 47,347 |
| | 35,958 | 5,499 | 378 | 1,109 | 11,323 | 4,403 | 58,670 |
| Compensation and general and administration expense | – | – | – | – | – | (11,360) | (11,360) |
| Interest expense | – | – | – | – | – | (8,493) | (8,493) |
| Realized and unrealized foreign exchange expense | – | – | – | – | – | (115) | (115) |
| Other expenses ¹ | – | – | – | – | – | (549) | (549) |
| Income tax expense | – | – | – | – | – | (5,696) | (5,696) |
| Net income | \$ 35,958 | \$ 5,499 | \$ 378 | \$ 1,109 | \$ 11,323 | \$ (21,810) | \$ 32,457 |

(in thousands of U.S. dollars)

For the three months ended
September 30, 2018

| | TAH | TLR U.S. | TLR Canada | THP | PF&A | Corporate ² | Total |
|--|------------------|-------------|-----------------|-----------------|-----------------|------------------------|------------------|
| Revenue | \$ – | \$ – | \$ – | \$ – | \$ 7,741 | \$ – | \$ 7,741 |
| Investment income | 53,650 | – | 1,932 | 3,309 | – | (743) | 58,148 |
| | 53,650 | – | 1,932 | 3,309 | 7,741 | (743) | 65,889 |
| Compensation and general and administration expense | – | – | – | – | – | (10,723) | (10,723) |
| Interest expense | – | – | – | – | – | (8,227) | (8,227) |
| Loss on debt extinguishment | – | – | – | – | – | (5,349) | (5,349) |
| Realized and unrealized foreign exchange expense | – | – | – | – | – | (1,028) | (1,028) |
| Other expenses ¹ | – | – | – | – | – | (2,098) | (2,098) |
| Income tax expense | – | – | – | – | – | (4,638) | (4,638) |
| Net income | \$ 53,650 | \$ – | \$ 1,932 | \$ 3,309 | \$ 7,741 | \$ (32,806) | \$ 33,826 |

(1) Other expenses include the net change in the fair value of derivative financial instruments and other liability, transaction costs and amortization and depreciation expense.

(2) Investment income from TLR assets held for sale is included in the corporate column. The comparative periods have been reclassified to conform with the current period presentation.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

(in thousands of U.S. dollars)

For the nine months ended
September 30, 2019

| | TAH | TLR U.S. | TLR Canada | THP | PF&A | Corporate ² | Total |
|--|-------------------|-----------------|-----------------|-----------------|------------------|------------------------|------------------|
| Revenue | \$ – | \$ – | \$ – | \$ – | \$ 28,179 | \$ – | \$ 28,179 |
| Investment income | 119,742 | 6,775 | 2,788 | 6,682 | – | 8,605 | 144,592 |
| | 119,742 | 6,775 | 2,788 | 6,682 | 28,179 | 8,605 | 172,771 |
| Compensation and general and administration expense | – | – | – | – | – | (36,744) | (36,744) |
| Interest expense | – | – | – | – | – | (23,531) | (23,531) |
| Realized and unrealized foreign exchange expense | – | – | – | – | – | (136) | (136) |
| Other expenses ¹ | – | – | – | – | – | (29,289) | (29,289) |
| Income tax expense | – | – | – | – | – | (14,195) | (14,195) |
| Net income | \$ 119,742 | \$ 6,775 | \$ 2,788 | \$ 6,682 | \$ 28,179 | \$ (95,290) | \$ 68,876 |

(in thousands of U.S. dollars)

For the nine months ended
September 30, 2018

| | TAH | TLR U.S. | TLR Canada | THP | PF&A | Corporate ² | Total |
|--|-------------------|-------------|---------------|-----------------|------------------|------------------------|-------------------|
| Revenue | \$ – | \$ – | \$ – | \$ – | \$ 20,782 | \$ – | \$ 20,782 |
| Investment income | 180,773 | – | 366 | 9,506 | – | 4,387 | 195,032 |
| | 180,773 | – | 366 | 9,506 | 20,782 | 4,387 | 215,814 |
| Compensation and general and administration expense | – | – | – | – | – | (35,396) | (35,396) |
| Interest expense | – | – | – | – | – | (24,794) | (24,794) |
| Loss on debt extinguishment | – | – | – | – | – | (5,349) | (5,349) |
| Realized and unrealized foreign exchange gain | – | – | – | – | – | 1,949 | 1,949 |
| Other income ¹ | – | – | – | – | – | 14,966 | 14,966 |
| Income tax expense | – | – | – | – | – | (17,259) | (17,259) |
| Net income from continuing operations | 180,773 | – | 366 | 9,506 | 20,782 | (61,496) | 149,931 |
| Net income from discontinued operations³ | – | – | – | – | – | 23,127 | 23,127 |
| Net income | \$ 180,773 | \$ – | \$ 366 | \$ 9,506 | \$ 20,782 | \$ (38,369) | \$ 173,058 |

(1) Other income (expenses) include the net change in the fair value of derivative financial instruments and other liability, transaction costs and amortization and depreciation expense.

(2) Investment income from TLR assets held for sale is included in the corporate column. The comparative periods have been reclassified to conform with the current period presentation.

(3) Net income from discontinued operations reflects investment income and gain from disposal of investments in TLC.

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

18. RELATED PARTY TRANSACTIONS AND BALANCES

The following table summarizes revenue earned from related parties, including revenue earned by consolidated subsidiaries. These are contractual arrangements with investments managed by the Company, of which the Company is the general partner of the investment. In addition, the table includes investment income from related entities fair valued by the Company.

| (in thousands of U.S. dollars) | For the three months ended September 30 | | For the nine months ended September 30 | |
|---|---|------------------|--|-------------------|
| | 2019 | 2018 | 2019 | 2018 |
| Contractual fees | \$ 8,068 | \$ 6,897 | \$ 22,506 | \$ 18,383 |
| General partner distributions | 273 | 372 | 790 | 1,081 |
| Performance fees | 2,982 | 472 | 4,883 | 1,318 |
| Total revenue | \$ 11,323 | \$ 7,741 | \$ 28,179 | \$ 20,782 |
| Investment income – Tricon American Homes | \$ 35,958 | \$ 53,650 | \$ 119,742 | \$ 180,773 |
| Investment income – Tricon Lifestyle Rentals | 10,280 | 1,189 | 18,168 | 4,753 |
| Investment income – Tricon Housing Partners | 1,109 | 3,309 | 6,682 | 9,506 |
| Total investment income from continuing operations | \$ 47,347 | \$ 58,148 | \$ 144,592 | \$ 195,032 |
| Investment income from discontinued operations and gain from disposal of investments held for sale – Tricon Lifestyle Communities | \$ – | \$ – | \$ – | \$ 21,170 |

Balances arising from transactions with related parties

The items set out below are included on various line items comprising the Company's condensed interim consolidated financial statements.

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Receivables from related parties included in amounts receivable | | |
| Contractual fees and other receivables from investments managed | \$ 6,556 | \$ 6,784 |
| Employee relocation housing loans ¹ | 2,110 | 2,483 |
| Proceeds from disposal of investments held for sale | – | 4,242 |
| Loan receivables from investments in associates and joint ventures | 16,907 | 18,874 |
| Annual incentive plan | 16,760 | 6,546 |
| Long-term incentive plan | 32,554 | 32,438 |
| Dividends payable | 525 | 329 |
| Other payables to related parties included in amounts payable and accrued liabilities | 103 | 42 |

(1) The employee relocation housing loans are non-interest bearing for a term of ten years, maturing between 2024 and 2028.

Revenues and receivables from related parties relate to general partnership distributions and contractual and performance fees for services provided by the Company. The receivables are unsecured and non-interest bearing. There are no provisions recorded against receivables from related parties at September 30, 2019 (December 31, 2018 – nil).

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19. FINANCIAL RISK MANAGEMENT

Liquidity risk

Liquidity risk is the risk that an entity will have difficulty in meeting obligations associated with its financial liabilities as they fall due or can only do so on terms that are materially disadvantageous. Prudent liquidity risk management includes maintaining sufficient cash on hand and the availability of funding through an adequate amount of committed credit facilities. The Company uses long-term borrowings to finance its investment strategy for Tricon American Homes and Tricon Lifestyle Rentals. Periodic cash flow forecasts are performed to ensure the Company has sufficient cash to meet operational and financing costs. Liquidity risk arising from the convertible debentures is mitigated by the Company's option, under the terms of the debentures, to settle the obligation with shares.

The maturity analysis of the Company's financial liabilities is as follows:

| (in thousands of U.S. dollars) As at September 30, 2019 | Due on demand and within the year | From 1 to 2 years | From 3 to 4 years | From 5 years and later | Total |
|--|---|----------------------|----------------------|---------------------------|-------------------|
| Liabilities | | | | | |
| Amounts payable and accrued liabilities | \$ 20,777 | \$ 7,886 | \$ 2,081 | \$ – | \$ 30,744 |
| Dividends payable | 10,257 | – | – | – | 10,257 |
| Revolving term credit facility | – | – | 320,000 | – | 320,000 |
| Debentures payable | – | – | 172,400 | – | 172,400 |
| Mortgages | 67 | 570 | 619 | 9,750 | 11,006 |
| Lease obligation | 31 | 283 | 342 | 464 | 1,120 |
| Derivative financial instruments | – | – | 147 | – | 147 |
| Other liability | – | 12,537 | – | – | 12,537 |
| Total | \$ 31,132 | \$ 21,276 | \$ 495,589 | \$ 10,214 | \$ 558,211 |

| (in thousands of U.S. dollars) As at December 31, 2018 | Due on demand and within the year | From 1 to 2 years | From 3 to 4 years | From 5 years and later | Total |
|---|---|----------------------|----------------------|---------------------------|-------------------|
| Liabilities | | | | | |
| Amounts payable and accrued liabilities | \$ 6,429 | \$ – | \$ – | \$ – | \$ 6,429 |
| Dividends payable | 7,350 | – | – | – | 7,350 |
| Revolving term credit facility | – | 209,250 | – | – | 209,250 |
| Debentures payable | – | – | 172,500 | – | 172,500 |
| Mortgage | 174 | 372 | 405 | 6,199 | 7,150 |
| Lease obligation | 122 | 282 | 340 | 460 | 1,204 |
| Derivative financial instruments | – | – | 3,936 | – | 3,936 |
| Total | \$ 14,075 | \$ 209,904 | \$ 177,181 | \$ 6,659 | \$ 407,819 |

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

for the three and nine months ended September 30, 2019

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

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

| (in thousands of U.S. dollars) As at September 30, 2019 | Within the year | From 1 to 2 years | From 3 to 4 years | From 5 years and later | Total |
|--|--------------------|----------------------|----------------------|---------------------------|-------------------|
| Principal | | | | | |
| 2022 convertible debentures | \$ – | \$ – | \$ 172,400 | \$ – | \$ 172,400 |
| Mortgages ¹ | 67 | 570 | 619 | 9,750 | 11,006 |
| Lease obligation | 31 | 283 | 342 | 464 | 1,120 |
| Interest | | | | | |
| 2022 convertible debentures | – | 19,826 | 4,957 | – | 24,783 |
| Mortgages ¹ | 78 | 898 | 848 | 338 | 2,162 |
| Lease obligation | 16 | 107 | 72 | 31 | 226 |
| Total | \$ 192 | \$ 21,684 | \$ 179,238 | \$ 10,583 | \$ 211,697 |

(1) Mortgage amounts were translated to U.S. dollars at the period-end exchange rate.

The details of the net current assets are shown below:

| (in thousands of U.S. dollars) | September 30, 2019 | December 31, 2018 |
|---|--------------------|-------------------|
| Cash | \$ 7,608 | \$ 7,773 |
| Amounts receivable | 11,339 | 17,934 |
| Prepaid expenses and deposits | 945 | 819 |
| Current assets | 19,892 | 26,526 |
| Amounts payable and accrued liabilities | 20,777 | 6,429 |
| Dividends payable | 10,257 | 7,350 |
| Mortgages | 67 | 174 |
| Lease obligation | 31 | 122 |
| Net current assets | \$ (11,240) | \$ 12,451 |

During the nine months ended September 30, 2019, the change in the Company's liquidity resulted in a working capital deficit of \$11,240 (December 31, 2018 – surplus of \$12,451). The Company has determined that its current financial obligations and working capital deficit are adequately funded from the available borrowing capacity and from operating cash flows.

As of September 30, 2019, the outstanding amount under the credit facility was \$320,000 (December 31, 2018 – \$209,250) and \$180,000 of the credit facility remained available to the Company. During the nine months ended September 30, 2019, the Company received distributions of \$93,496 (2018 – \$192,074) from its investments.

20. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: (i) to safeguard its ability to meet financial obligations and growth objectives, including future investments; (ii) to provide an appropriate return to its shareholders; and (iii) to maintain an optimal capital structure that allows multiple financing options, should a financing need arise. The Company's capital consists of debt (including revolving term credit facility and convertible debentures), cash and shareholders' equity. In order to maintain or adjust the capital structure, the Company manages equity as capital and may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets.

As of September 30, 2019, the Company was in compliance with all financial covenants (Note 6).

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

21. WORKING CAPITAL CHANGES

(in thousands of U.S. dollars)

| For the nine months ended September 30 | 2019 | 2018 |
|--|------------------|-----------------|
| Amounts receivable | \$ 6,595 | \$ (3,751) |
| Prepaid expenses and deposits | (126) | (348) |
| Amounts payable and accruals | 24,315 | 3,259 |
| | \$ 30,784 | \$ (840) |

22. FINANCING ACTIVITIES

| (in thousands of U.S. dollars) | As at December 31, 2018 | Cash flows | Non-cash changes | | | | As at September 30, 2019 |
|--|-------------------------------|-------------------|---------------------------------|-----------------------|------------------|--------------------|--------------------------------|
| | | | Foreign exchange movement | Fair value changes | Addition | Other ¹ | |
| Revolving term credit facility | \$ 209,250 | \$ 110,750 | \$ - | \$ - | \$ - | \$ - | \$ 320,000 |
| 2022 convertible debentures | 157,112 | - | - | - | - | 3,096 | 160,208 |
| Derivative financial instruments | 3,936 | - | - | (3,789) | - | - | 147 |
| Other liability | - | - | - | (520) | 13,057 | - | 12,537 |
| Mortgages | 7,150 | 3,642 | 214 | - | - | - | 11,006 |
| Lease obligation | 1,204 | (133) | - | - | - | 49 | 1,120 |
| Total liabilities from financing activities | \$ 378,652 | \$ 114,259 | \$ 214 | \$ (4,309) | \$ 13,057 | \$ 3,145 | \$ 505,018 |

(1) Includes \$2,013 amortization of debentures discount and \$1,183 amortization of debentures issuance costs, offset by the conversion of \$100 principal amount of the 2022 convertible debentures into common shares, along with \$49 interest on lease obligation.

23. SUBSEQUENT EVENTS

On October 2, 2019, the Board of Directors of the Company approved the early removal of the transfer restrictions, or “lock-up”, previously in place on the Company’s common shares issued as part of Tricon’s acquisition of the U.S. Multi-Family Portfolio on June 11, 2019. The removal of the transfer restrictions on common shares issued to “non-insiders” of the U.S. Multi-Family Portfolio was effective immediately and such restricted shares have become freely tradeable on the Toronto Stock Exchange. The contractual lock-up in respect of the Tricon common shares issued to Starlight Group Property Holdings Inc. (“Starlight Group”) and members of its management will be removed on January 31, 2020. The Company also agreed to extend the duration of the put right and the call right applicable to certain Tricon common shares issued to Starlight Group and its management (Note 4).

On November 4, 2019, the Board of Directors of the Company declared a dividend of seven cents per share in Canadian dollars payable on or after January 15, 2020 to shareholders of record on December 31, 2019.



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