

Condensed Consolidated Interim Financial Statements of

CROWN CAPITAL PARTNERS INC.

Three months ended March 31, 2019 and 2018

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(expressed in thousands of Canadian dollars)

As at	March 31, 2019	December 31, 2018
Assets		
Cash and cash equivalents	\$ 51,573	\$ 11,307
Accounts receivable	5,323	4,388
Income taxes recoverable	1,670	-
Prepaid expenses and deposits	204	220
Investments (Note 4)	194,417	246,862
Share purchase loans (Note 10)	132	638
Property and office equipment	595	124
Equipment under development and related deposits (Note 13 and 14)	9,283	12,030
Deferred income taxes	410	352
	\$ 263,607	\$ 275,921
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 927	\$ 1,143
Distributions payable to non-controlling interests	2,611	2,765
Income taxes payable	-	287
Long-term lease obligations	478	-
Deferred compensation (Note 6)	216	265
Provision for performance bonus (Note 9)	1,542	2,679
Credit facilities (Note 7)	10,220	17,730
Convertible debentures - liability component (Note 8)	18,303	18,222
Non-controlling interests (Note 11)	130,009	127,938
Total Liabilities	164,306	171,029
Equity		
Share capital (Note 5)	97,549	97,615
Convertible debentures - equity component (Note 8)	483	483
Contributed surplus	786	1,397
Retained earnings	483	5,397
Total Equity	99,301	104,892
	\$ 263,607	\$ 275,921
Commitments (Note 14)		
Subsequent events (Note 15)		

See accompanying notes to condensed consolidated interim statements.

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss) (unaudited)

(expressed in thousands of Canadian dollars, except earnings per share and weighted average number of shares)

	For the three months ended March 31,	
	2019	2018
Revenues		
Interest revenue	\$ 7,963	\$ 5,563
Fees and other income	1,576	199
Net gain (loss) on investments		
Net realized gain from investments	930	-
Net change in unrealized (losses) on investments	(14,439)	(458)
	(3,970)	5,304
Expenses		
Salaries, management fees and benefits	615	712
Share-based compensation (Note 6)	175	520
General and administration	473	400
Performance bonus expense (recovery)	(1,137)	58
Provision for bad debt	3,018	-
Depreciation	35	2
Provision for credit losses	112	27
Finance costs (Notes 7 and 8)	866	135
	4,157	1,854
Earnings (loss) before income taxes	(8,127)	3,450
Income taxes		
Current tax expense (recovery)	(1,435)	410
Deferred tax	(59)	107
	(1,494)	517
Net income (loss) and comprehensive income (loss)	\$ (6,633)	\$ 2,933
Net income (loss) and comprehensive income (loss) attributable to:		
Shareholders of the Corporation	\$ (3,988)	\$ 900
Non-controlling interests (Note 11)	(2,645)	2,033
	\$ (6,633)	\$ 2,933
Earnings (loss) per share attributable to shareholders:		
Basic	\$ (0.41)	\$ 0.09
Diluted	\$ (0.41)	\$ 0.09
Weighted average number of shares, basic	9,613,379	9,496,786
Weighted average number of shares, diluted	9,729,605	9,858,898

See accompanying notes to condensed consolidated interim statements.

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

For the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars, except number of shares)

	Number of shares	Share capital	Convertible debentures - equity component	Contributed surplus	Retained earnings	Total Equity
Balance as at January 1, 2018	9,510,017	96,570	-	2,931	4,060	103,561
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	-	900	900
Share-based compensation (Note 6)	-	-	-	520	-	520
Cash-settled share-based compensation (Note 6)	-	-	-	(62)	-	(62)
Issuance of common shares (Note 5)	8,850	86	-	(86)	-	-
Shares repurchased (Note 5)	(34,700)	(352)	-	-	23	(329)
Dividends declared (Note 5)	-	-	-	-	(1,424)	(1,424)
Balance as at March 31, 2018	9,484,167	\$ 96,304	\$ -	\$ 3,303	\$ 3,559	\$ 103,166
Balance as at January 1, 2019	9,616,555	\$ 97,615	\$ 483	\$ 1,397	\$ 5,397	\$ 104,892
Net income (loss) and comprehensive income (loss) attributable to shareholders of the Corporation	-	-	-	-	(3,988)	(3,988)
Share-based compensation (Note 6)	-	-	-	120	-	120
Cash-settled share-based compensation (Note 6)	-	-	-	(106)	(11)	(117)
Issuance of common shares (Note 5)	11,033	104	-	(104)	-	-
Shares repurchased (Note 5)	(16,761)	(170)	-	-	5	(165)
Cancellation of options (Note 6)	-	-	-	(521)	521	-
Dividends declared (Note 5)	-	-	-	-	(1,441)	(1,441)
Balance as at March 31, 2019	9,610,827	\$ 97,549	\$ 483	\$ 786	\$ 483	\$ 99,301

See accompanying notes to condensed consolidated interim statements.

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(expressed in thousands of Canadian dollars)

For the three months ended March 31,	2019	2018
Cash provided by (used in) operating activities		
Net income (loss)	\$ (6,633)	\$ 2,933
Adjustments for:		
Net realized gain from investments	(930)	-
Net change in unrealized losses in fair value on investments	14,439	458
Finance fees received on loans carried at amortized cost, net of non-cash finance fees	250	715
Interest income	(7,963)	(5,563)
Interest income received in the period	6,204	4,943
Provision for expected credit loss	112	27
Non-cash finance costs	200	71
Depreciation	35	2
Current income tax	(1,435)	410
Income taxes paid in the period	(523)	(794)
Deferred income tax	(59)	107
Share-based compensation, net of cash settlements	26	458
Provision for performance bonus, net of payments	(1,137)	(926)
Provision for bad debt	3,018	-
Net change in non-cash working capital (Note 12)	(804)	(856)
	4,800	1,985
Cash provided by (used in) investing activities		
Proceeds from repayment of debt securities	45,000	-
Addition of investments	(5,068)	(30,000)
Share purchase loan repayments, net of advances	506	320
Purchase of property and office equipment	(3)	-
Purchase of equipment under development and related deposits	(271)	-
	40,164	(29,680)
Cash provided by (used in) financing activities		
Non-controlling interests contributions to Crown Partners Fund (Note 11)	3,492	-
Non-controlling interests contributions to Crown Power Fund (Note 11)	13,289	-
Distributions paid by Crown Partners Fund to non-controlling interests	(12,219)	(2,015)
Long-term lease financing	(25)	-
Credit facility repayments, net of advances (Note 7)	(7,000)	-
Shares repurchased (Note 5)	(165)	(329)
Dividends (Note 5)	(1,441)	(1,424)
Deferred financing costs	(629)	-
	(4,698)	(3,768)
Increase (decrease) in cash and cash equivalents	40,266	(31,463)
Cash and cash equivalents, beginning of period	11,307	41,106
Cash and cash equivalents, end of period	\$ 51,573	\$ 9,643
Supplemental cash flow information:		
Interest paid in the period	\$ 370	\$ -

See accompanying notes to condensed consolidated interim statements.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

1. Reporting entity:

Crown Capital Partners Inc. (the “Corporation”) was incorporated under the Canada Business Corporations Act on September 8, 1999 and commenced operations effective October 1, 2000. The Corporation provides investment management services and its registered office is Suite 888 3rd Street S.W., Calgary, Alberta. These condensed consolidated interim financial statements as at and for the three months ended March 31, 2019 and 2018 comprise the Corporation and its subsidiaries, which include:

- A 100% interest (March 31, 2018 – 100%) in Crown Capital Funding Corporation (“CCFC”);
- Through CCFC, a 100% interest (March 31, 2018 – 100%) in Crown Capital Private Credit Fund, LP (“Crown Private Credit Fund”);
- Through CCFC, an effective interest of 37.0% (March 31, 2018 - 36.5%) in Crown Capital Partner Funding, LP (“Crown Partners Fund”). Crown Partners Fund was formerly named Crown Capital Fund IV, LP prior to its name change, which was effective July 23, 2018;
- A 100% interest (March 31, 2018 – 100%) in Crown Capital Private Credit Management Inc. (“CCPC MI”), the general partner of Crown Private Credit Fund;
- A 100% interest (March 31, 2018 – 100%) in Crown Capital LP Partner Funding Inc. (“CCPF MI”) previously named Crown Capital Fund IV Management Inc., the general partner of Crown Partners Fund and Crown Capital Fund IV Investment, LP (“CCF IV Investment”);
- A 100% interest (March 31, 2018 – 100%) in Crown Capital Fund III Management Inc. (“CCF III”), the general partner and manager of Norrep Credit Opportunities Fund, LP;
- Effective June 8, 2018 upon its incorporation, a 100% interest (March 31, 2018 – nil) in 10824356 Canada Inc., the general partner of Crown Capital Power Limited Partnership (“Crown Power Fund”); and
- Through CCFC, an effective interest of 43.2% (March 31, 2018 – nil) in Crown Power Fund.

On June 30, 2015, the Corporation became a reporting issuer when it filed a prospectus with all provincial securities commissions in Canada in respect of an Initial Public Offering (“IPO”).

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

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(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

2. Basis of preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Corporation’s financial position and results of operations since the last annual consolidated financial statements as at and for the year ended December 31, 2018. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2018.

These condensed consolidated interim financial statements were authorized for issue by the Corporation’s Board of Directors on May 6, 2019.

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis, other than investments carried at fair value through profit or loss.

(c) Functional and presentation currency:

These condensed consolidated interim financial statements are presented in Canadian dollars, which is the Corporation’s functional currency.

(d) Use of estimates and judgments:

The preparation of the condensed consolidated interim financial statements in accordance with the financial reporting framework requires management to make judgments, estimates and assumptions that affect the application of the Corporation’s accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and liabilities at the reporting date.

The significant judgments made by management in applying the Corporation’s accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2018.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

3. Significant accounting policies:

The accounting policies applied to these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2018, except for those detailed below.

Current period changes in accounting policies:

IFRS 16 “Leases” (“IFRS 16”):

On January 1, 2019, the Corporation adopted IFRS 16, which replaced IAS 17 “Leases” (“IAS 17”). IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Corporation, as a lessee, has recognized a right-of-use asset in respect of its office lease representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments.

Transition

Previously, the Corporation classified its office lease as an operating lease under IAS 17. At transition, the lease liability was measured at the present value of the remaining lease payments, discounted at the Corporation’s incremental borrowing rate as at January 1, 2019. When measuring the lease liability, the Corporation discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied is 7.0%.

The right-of-use asset is measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Corporation has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019, with no restatement of comparative information.

As a result of initially applying IFRS 16, the Corporation recognized a right-of-use asset in the amount of \$503 and a lease liability in the amount of \$503, with a nil difference in retained earnings.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments:

(a) Investments

As at	March 31, 2019	December 31, 2018
Investments at FVTPL:		
Canadian debt securities at FVTPL	\$ 38,084	\$ 69,006
Canadian equity securities	7,699	8,016
Other investments	5,284	4,494
Total Investments at FVTPL	51,067	81,516
Canadian debt securities at amortized cost	143,683	165,567
Allowance for credit losses	(333)	(221)
Total Investments at amortized cost, net of allowance for credit losses	143,350	165,346
Total Investments	\$ 194,417	\$ 246,862

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments (continued):

(b) Canadian debt securities

The carrying value of Canadian debt securities broken down by contractual maturity is as follows:

Contractual maturity	March 31, 2019	December 31, 2018
On demand	\$ 17,414	\$ 17,414
0 – 12 months	3,800	4,660
1 – 3 years	32,557	60,072
3 – 5 years	87,753	112,400
5 years or more	40,243	40,027
Total debt securities	\$ 181,767	\$ 234,573

As at March 31, 2019, investments held in the form of Canadian debt securities had coupon interest rates ranging from 8.0% to 14.0% (December 31, 2018 – 8.0% to 14.0%) per annum.

Interest revenue calculated using the effective interest rate method for debt securities carried at amortized cost totaled \$5,313 for the three months ended March 31, 2019 (for the three months ended March 31, 2018 - \$3,956). The effective interest rates as at March 31, 2019 ranged from 10.0% to 14.6%.

Finance fees recognized in revenue in relation to the repayment of debt securities carried at amortized cost totaled \$900 for the three months ended March 31, 2019 (for the three months ended March 31, 2018 - \$nil).

(c) Canadian equities

As at March 31, 2019, investments in equity securities included common shares in Canadian public companies, warrants in Canadian public companies, common shares of a Canadian private company and warrants in Canadian private companies.

(d) Cash and cash equivalents

Cash and cash equivalents comprises deposits with banks and highly liquid financial assets with maturities of three months or less from the acquisition date that are subject to an insignificant risk of changes in their fair value and are used by the Corporation in the management of short-term commitments.

(e) Other receivable

Included in accounts receivable is a receivable that comprises an amount owing from an operating partner affiliated with Crown Power Fund. This amount relates to advances from the Corporation that were used by the operating partner to fund unauthorized operating expenses. A provision for bad debt has been set up in the amount of \$3,018, representing the gross amount of the receivable, and is based on the Corporation's current assessment of the recoverability of this amount.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

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4. Financial instruments (continued):

(f) Allowance for credit losses

The changes to the Corporation's allowance for credit losses under IFRS 9, as at and for the three months ended March 31, 2019 and March 31, 2018, are shown in the following table.

Allowance for credit losses	2019	2018
Opening balance, January 1	\$ 221	\$ 103
Repayment of debt securities	(14)	-
Addition of new debt securities	1	27
Net remeasurement of loss allowance	73	-
Transfer to lifetime ECL – not credit impaired	52	-
Ending balance, March 31	333	130

The total gross carrying values of debt securities at amortized cost classified as Stage One, Stage Two and Stage Three and the associated allowance for credit losses, as at March 31, 2019 and December 31, 2018, are shown in the following tables:

	March 31, 2019			
	Stage One	Stage Two	Stage Three	Total
Debt securities at amortized cost	\$ 92,968	\$ 50,715	\$ -	\$ 143,683
Allowance for credit losses	(87)	(246)	-	(333)
Debt securities at amortized cost, net of allowance for credit losses	\$ 92,881	\$ 50,469	\$ -	\$ 143,350
	December 31, 2018			
	Stage One	Stage Two	Stage Three	Total
Debt securities at amortized cost	\$ 122,244	\$ 43,323	\$ -	\$ 165,567
Allowance for credit losses	(87)	(134)	-	(221)
Debt securities at amortized cost, net of allowance for credit losses	\$ 122,157	\$ 43,189	\$ -	\$ 165,346

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments (continued):

(g) Fair values:

The fair values of financial assets and financial liabilities that are traded on active markets are based on closing quoted market prices at the reporting date. For all other financial instruments, the Corporation determines fair values using other valuation techniques.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date. The fair value of a liability reflects its non-performance risk.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Fair values of investments without quoted market prices are determined by management on the basis of the expected realizable value of the investments as at the date of the statement of financial position if they were disposed of in an orderly manner over a reasonable period of time, discounted at a discount rate which is considered by management to be appropriate at the date of the financial statement for the specific investment. There is no active secondary market for many investments which are not publicly-traded, and there is considerable uncertainty and a potentially broad range of outcomes with respect to the future cash flows from these investments. Valuations of such investments are subject to a number of assumptions and uncertainties that may cause actual values realized on disposal to differ materially from the fair value estimated at any particular time.

A three-tier hierarchy is used as a framework for disclosing fair value based on inputs used to value the Corporation's investments. The hierarchy of inputs is summarized below:

- Inputs that are quoted prices (unadjusted) in active markets for identical instruments (Level 1);
- Inputs other than quoted prices included in Level 1 that are observable for instruments, either directly (i.e., as prices) or indirectly (i.e., derived from prices) (Level 2). This category includes instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques in which all significant inputs are directly or indirectly observable from market data; and
- Inputs for the instruments that are not based on observable market data (unobservable inputs) (Level 3). This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on the quoted prices for similar instruments but for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments (continued):

(g) Fair values (continued):

The tables below analyze the fair value of investments at March 31, 2019 and December 31, 2018 by the level in the fair value hierarchy into which the fair value measurement is categorized. For investments carried at FVTPL, the amounts are based on the values recognized in the statement of financial position. There were no transfers between levels during the period.

March 31, 2019					
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Carrying value
Canadian debt securities at FVTPL	\$ -	\$ -	\$ 38,084	\$ 38,084	\$ 38,084
Canadian equity securities	1,179	2,978	3,542	7,699	7,699
Other investments	-	-	5,284	5,284	5,284
Total Investments at FVTPL	1,179	2,978	46,910	51,067	51,067
Canadian debt securities at amortized cost	-	-	145,538	145,538	143,350
Total Investments	\$ 1,179	\$ 2,978	\$ 192,448	\$ 196,605	\$ 194,417

December 31, 2018					
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Carrying value
Canadian debt securities at FVTPL	\$ -	\$ -	\$ 69,006	\$ 69,006	\$ 69,006
Canadian equity securities	1,416	3,058	3,542	8,016	8,016
Other investments	-	-	4,494	4,494	4,494
Total Investments at FVTPL	1,416	3,058	77,042	81,516	81,516
Canadian debt securities at amortized cost	-	-	168,607	168,607	165,346
Total Investments	\$ 1,416	\$ 3,058	\$ 245,649	\$ 250,123	\$ 246,862

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments (continued):

(g) Fair values (continued):

Canadian debt securities are valued using the discounted present value of expected cash flows arising from these debt instruments.

Observable inputs used in the development of an appropriate discount rate include Government of Canada benchmark interest rate for the term of the individual loan and the BBB-rated corporate interest rate spread for the term of the individual loan. Significant unobservable inputs include an illiquidity spread as well as a credit spread, both of which increase the discount rate. These rates are set initially at a level such that the loan valuation equals the initial purchase cost of the loan and are subsequently adjusted at each valuation date to reflect management's current assessment of market conditions.

Discount rates are subject to adjustment based on both management's current assessment of market conditions and the economic performance of individual investments. At March 31, 2019, discount rates used range from 11.0% to 17.6% (December 31, 2018 – 10.4% to 21.5%).

The most significant input into the calculation of fair value of Level 3 debt investments is the discount rate applied to expected future cash flows. If the discount rate increased (decreased) by 100 bps, the fair value of Level 3 investments at March 31, 2019 would decrease by \$4,194 or increase by \$4,396, respectively.

At March 31, 2019 there is one loan carried at FVTPL that is in default and for which fair value is determined on a liquidation basis. The most significant input into the calculation of fair value of this debt investment is the estimated proceeds from the liquidation of security held for the loan. The estimation of such proceeds is subject to change and the timing and level of actual proceeds received might vary from current expectations, resulting in adjustments to the fair value of this debt investment in future periods.

The Canadian equity securities at March 31, 2019 include warrants classified as Level 3 that are valued based on a net asset value-based estimate of the underlying equity value, and common shares in a Canadian private company classified as Level 3 that are valued using an enterprise value multiple approach. The other investments classified as Level 3 are valued using the discounted present value of expected cash flows arising from these investments.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements

As at and for the three months ended March 31, 2019 and 2018

(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

4. Financial instruments (continued):

(g) Fair values (continued):

The following tables reconcile opening balances to closing balances for fair value measurements of investments carried at FVTPL in Level 3 of the fair value hierarchy:

For the three months ended	March 31, 2019	March 31, 2018
Level 3 securities at FVTPL		
Beginning balance, January 1	77,042	62,077
Purchases	-	-
Repayment	(15,504)	-
Net change in unrealized gains	(14,628)	416
Ending balance	\$ 46,910	\$ 62,493

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and distributions payable to non-controlling interests approximate their fair values due to their short term to maturity. The carrying values of the credit facilities and share purchase loans approximate their fair values due to the market interest rates on the loans. The carrying value of the convertible debentures – liability component approximates fair value at March 31, 2019 due to the market interest rate at March 31, 2019 which was consistent with that used to record the convertible debentures – liability component upon initial recognition at fair value on June 13, 2018. The deferred compensation liability is measured based on the market value of the Corporation's share price with the impact of any resultant change included in share-based compensation expense in the period.

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(expressed in thousands of Canadian dollars except number of shares and where otherwise indicated)

5. Share capital:

The authorized share capital of the Corporation consists of an unlimited number of common shares each carrying the right to one vote per common share at all meetings of shareholders of the Corporation and fully participating as to dividends of the Corporation.

On April 10, 2018, the Corporation renewed its normal course issuer bid (“NCIB”) to purchase up to 300,000 common shares, representing approximately 3.2% of its issued and outstanding common shares as at April 5, 2018, over the next twelve months, or until such time as the bid is completed or terminated at the Corporation’s option (see Note 15). Any shares purchased under this bid are purchased on the open market at the prevailing market price at the time of the transaction. Common shares acquired under this bid are cancelled.

During the three months ended March 31, 2019, the Corporation purchased and cancelled a total of 16,761 shares (March 31, 2018 – 34,700 shares) for total consideration of \$165 (March 31, 2018 - \$329). Total shares purchased and cancelled under the current NCIB up to March 31, 2019 was 97,083.

During the three months ended March 31, 2019, the Corporation issued 11,033 shares as vested share-based compensation. During the three months ended March 31, 2018, the Corporation issued 8,850 shares as vested share-based compensation (see Note 6).

During the three months ended March 31, 2019, the Corporation declared and paid dividends of \$0.15 per share (March 31, 2018 - \$0.15 per share) for a total payment of \$1,441 (2018 - \$1,424).

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6. Share-based compensation:

The Corporation issues performance share units (“PSUs”) and restricted share units (“RSUs”) to employees. On July 9, 2015, the Corporation issued a one-time grant of transition restricted share units (“TRSUs”) to certain employees which vested in July 2018. Prior to May 8, 2018, the Corporation issued RSUs and retainer restricted share units (“RRSUs”) to directors. PSUs, RSUs, TRSUs and RRSUs are collectively referred to as “Share Units”. On the vesting date, each Share Unit is exchanged for one common share of the Corporation, except that the holder may elect to be compensated in cash based on the fair value of such common shares to the extent necessary to pay any tax withholdings related to the vesting of the Share Units. The PSUs vest when certain performance objectives are achieved. RSUs issued to employees vest on January 1, 2019, January 3, 2020 and January 3, 2021 provided the holder of the RSUs remains an employee of the Corporation. RSUs issued to directors vest over a three-year period from the issue date provided the holder remains a director of the Corporation. RRSUs vested immediately upon grant.

The Corporation issues additional Share Units to employees and directors in lieu of dividends on outstanding Share Units. These Share Units vest on the same date as the respective Share Units for which they were awarded. The number of Share Units issued in lieu of dividends is based on the weighted average trading price of the common shares in the five days preceding payment of a dividend.

Effective May 8, 2018, the Corporation revised its compensation program for directors and introduced a Director Deferred Share Unit (“DDSU”) Plan under which it issues DDSUs to directors. DDSUs vest immediately upon grant and are redeemable no earlier than the date at which a director ceases to be a director, and no later than 367 days following such date. Upon redemption, DDSUs are settled by cash payments based on the market value of the DDSUs being redeemed, net of applicable tax withholdings. The Corporation’s liability related to its DDSU settlement obligation is measured based on the market value of the Corporation’s share price and is recorded in provision for deferred compensation, with the impact of any resulting changes in carrying value included in share-based compensation expense in the period. At March 31, 2019, the deferred compensation liability was \$216 (December 31, 2018 - \$265).

The Corporation issues additional DDSUs to directors in lieu of dividends on outstanding DDSUs. These DDSUs vest on the same terms as the respective DDSUs for which they were awarded. The number of DDSUs issued in lieu of dividends is based on the weighted average trading price of the common shares for the ten-day period ending at the dividend payment date.

Stock options granted are valued using a Black-Scholes formula and the expense is recognized over the vesting period. The stock options vest over a three-year period and have a five-year term and an exercise price of \$11.00. During the three months ended March 31, 2019, 450,182 stock options that had vested but had not been exercised were cancelled, and 21,212 stock options that had not vested were cancelled. In the same period, 31,818 options were granted under the same terms as those cancelled options. As at March 31, 2019, nil (December 31, 2018 – 450,182) stock options had vested but had not been exercised, and an additional 31,818 (December 31, 2018 – 21,212) stock options which had not vested were outstanding.

CROWN CAPITAL PARTNERS INC.

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6. Share-based compensation (continued):

The tables below detail the share-based compensation expense recognized in the three months ended March 31, 2019 and 2018. Share-based compensation expense is recognized over the expected vesting period of each award.

	For the three months ended March 31, 2019				Number outstanding	
	Number outstanding at January 1, 2019	Issued in the period	Vested or exercised	Cancelled or forfeited	at March 31, 2019	Expensed in the period
PSUs ¹	54,825	815	-	-	55,640	\$ 62
RSUs ¹	85,037	921	(22,253)	(1,984)	61,721	49
DDSU ¹	25,433	329	(3,311)	-	22,451	55
Total units	165,295	2,065	(25,564)	(1,984)	139,812	166
Stock options	471,394	31,818	-	(471,394)	31,818	9
Total	636,689	33,883	(25,564)	(473,378)	171,630	\$ 175

¹ The PSUs, RSUs and DDSUs issued in the period were issued in lieu of dividends on the underlying securities.

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6. Share-based compensation (continued):

For the three months ended March 31, 2018						
	Number outstanding at January 1, 2018	Issued in the period	Vested or exercised	Number outstanding Forfeited	Number outstanding at March 31, 2018	Expensed in the period
TRSU ^s ¹	200,725	3,256	-	-	203,981	\$ 186
PSU ^s ²	38,426	41,955	(4,107)	-	76,274	159
RSU ^s ²	80,210	21,909	(5,379)	-	96,740	103
RRSU ^s	-	5,726	(5,726)	-	-	55
Total units	319,361	72,846	(15,212)	-	376,995	503
Stock options	471,394	-	-	-	471,394	17
Total	790,755	72,846	(15,212)	-	848,389	\$ 520

¹ The TRSUs issued in the period were units issued in lieu of dividends on the underlying securities.

² The PSUs and RSUs issued in the period were new awards and units issued in lieu of dividends on the underlying securities.

7. Credit facilities:

The Corporation has a \$35,000 senior secured revolving credit facility (the “Crown Credit Facility”) to fund the Corporation’s capital commitments to each of its controlled investment funds. The Crown Credit Facility provides financing at a variable interest rate based on Prime Rate plus 275 bps to 325 bps or on Bankers Acceptance rate plus 375 to 425 bps and has a customary set of covenants. Effective February 5, 2019, the Corporation extended the maturity of the Crown Credit Facility by 17 months to May 31, 2021, which is subject to a one-year extension annually on each May 31, and amended certain terms of the facility. As of March 31, 2019, \$11,000 (December 31, 2018 - \$18,000) has been drawn on the Crown Credit Facility. The Crown Credit Facility is secured by the Corporation’s effective ownership interest in the investments held by its controlled investment funds, through CCFC and certain other investments held by the Corporation. The carrying value of assets pledged as at March 31, 2019 was \$105,063.

During the three months ended March 31, 2019, \$448 (March 31, 2018 - \$135) was expensed as finance costs relating to the Crown Credit Facility including amortization of deferred financing costs of \$102, interest of \$306 and standby fees of \$40 (2018 - \$71, \$nil and \$64, respectively). The balance of unamortized deferred financing costs relating to the Crown Credit Facility as at March 31, 2019 was \$460 (December 31, 2018 - \$270).

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7. Credit facilities (continued):

On February 5, 2019, Crown Partners Fund entered into an agreement for a \$25,000 senior secured revolving credit facility ("CCPF Credit Facility") to fund investments in mid-market corporations. The CCPF Credit Facility provides financing at a variable interest rate based on Prime Rate plus 225 bps to 325 bps or on Bankers Acceptance rate plus 325 to 425 bps and has a customary set of covenants. The CCPF Credit Facility matures on May 31, 2022 and is subject to a one-year extension annually on each May 31, which is not to exceed the term of Crown Partners Fund, as defined in its limited partnership agreement. As of March 31, 2019, \$nil has been drawn on the CCPF Credit Facility. The CCPF Credit Facility is secured by the investments held by Crown Partners Fund. The carrying value of assets pledged as at March 31, 2019 was \$161,254.

During the three months ended March 31, 2019, \$33 was expensed as finance costs relating to the CCPF Credit Facility including amortization of deferred financing costs of \$17, interest of \$16 and standby fees of \$nil (2018 - \$nil, \$nil and \$nil, respectively). The balance of unamortized deferred financing costs relating to the CCPF Credit Facility as at March 31, 2019 was \$320 (December 31, 2018 - \$nil).

8. Convertible Debentures:

On June 13, 2018 the Corporation issued \$20,000 of 6.0% convertible unsecured subordinated debentures (the "Convertible Debentures") for net proceeds of \$18,703 with maturity date of June 30, 2023 (the "Debenture Maturity Date"). Interest on the Convertible Debentures is payable semi-annually in arrears on June 30 and December 31 of each year, commencing on December 31, 2018. The Convertible Debentures are direct, subordinated unsecured obligations of the Corporation, subordinated to the Credit Facility.

Each \$1 principal amount of Convertible Debenture is convertible at the option of the holder into approximately 72.99 common shares of the Corporation (representing a conversion price of \$13.70 per share). The Convertible Debentures are not redeemable on or before June 30, 2021, except in limited circumstances following a Change of Control (as defined in the Trust Indenture). After June 30, 2021, but prior to June 30, 2022, the Convertible Debentures may be redeemed in whole or in part from time to time at the Corporation's option, on not more than 60 days and not less than 30 days prior written notice, at a price equal to the aggregate principal amount plus accrued and unpaid interest, provided that the weighted average price of the common shares during the 20 consecutive trading days ending on the fifth day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2022 and prior to the Debenture Maturity Date, the Convertible Debentures may be redeemed in whole or in part from time to time at the Corporation's option at a price equal to their aggregate principal amount plus accrued and unpaid interest.

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8. Convertible Debentures (continued):

On a Redemption Date (as defined in the Trust Indenture) or on the Debenture Maturity Date, as applicable, the Corporation may, at its option, elect to satisfy its obligation to pay the aggregate principal amount of and premiums on (if any) the Convertible Debentures by issuing common shares. Payment for such Convertible Debentures, subject to the election, would be satisfied by delivering that number of common shares obtained by dividing the aggregate principal amount of the outstanding Convertible Debentures which are to be redeemed, or which will mature, by 95% of the Weighted Average Price of the Common Shares for the 20 consecutive trading days ending five trading days prior to the date fixed for redemption or the Maturity Date, as the case may be. Any accrued and unpaid interest will be paid in cash.

	Liability Component	Equity Component
Balance, December 31, 2018	\$ 18,222	\$ 483
Effective interest on Convertible Debentures	81	-
Balance, March 31, 2019	18,303	483

During the three months ended March 31, 2019, \$377 (March 31, 2018 - \$nil) was expensed as finance costs relating to the Convertible Debentures including amortization of deferred financing costs of \$81 and interest of \$296 (2018 - \$nil).

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Notes to the condensed consolidated interim financial statements

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9. Provision for performance bonus:

The Corporation has asset performance bonus pool (“APBP”) arrangements for certain individuals, primarily employees, collectively, the “APBP Participants”. For certain investment funds managed by the Corporation, 20% of investment returns in excess of an annual rate of return of 8% earned by the fund accrue to the Corporation as performance fee distributions. The Corporation’s current compensation policy provides that 50% of such performance fees will be distributed to APBP Participants with the other 50% retained by the Corporation.

Allocation of the units of the APBP relating to Crown Partners Fund commenced in 2015 and will continue until the expiration of the investment fund’s term in 2024, subject to annual one-year extensions, with 50% of performance fees recognized by Crown Partners Fund allocated to employees.

As at March 31, 2019, no amounts have been accrued and no units have been allocated in relation to the APBP of Crown Power Fund.

Performance bonus amounts will be paid to APBP Participants in accordance with the Limited Partnership Agreement of the investment fund, upon declaration by the General Partner of the investment fund.

As at March 31, 2019, the Corporation had accrued a provision for performance bonus payable of \$1,542 relating to the APBP of Crown Partners Fund (December 31, 2018 - \$2,679).

10. Share purchase loans:

The Corporation has an Executive Share Purchase Plan (the “Share Purchase Plan”) whereby the Board can approve loans to Participants (“Share Purchase Plan Participants”) for the purpose of purchasing the Corporation’s common shares in the open market. Loans in relation to the Share Purchase Plan are advanced by both a third-party financial institution and the Corporation (collectively the “Lenders”). The following must be paid directly to the Lenders on behalf of management in repayment of interest and principal on these loans: all dividend distributions on the common shares, all annual performance incentive plan payments to Participants in excess of target bonus payouts, and all proceeds from the sale of the common shares.

During the three months ended March 31, 2019, the Corporation advanced \$120 of new loans under the Share Purchase Plan and \$628 of principal was repaid (2018 - \$nil and \$320, respectively). As at March 31, 2019, \$132 of loans to the Corporation were outstanding (December 31, 2018 - \$638), including accrued interest of \$2 (2018 - \$7). Loans to the Corporation under the Share Purchase Plan bear interest at prime (3.95% as at March 31, 2019), are repayable in full within 90 days following the date on which the Participant ceases to be employed by the Corporation and are personally guaranteed by Participants.

The Corporation has guaranteed repayment of loans advanced to Participants by a third-party financial institution pursuant to the Share Purchase Plan which totaled \$3,378 as at March 31, 2019, and which are secured by common shares of the Corporation owned by Participants with a value of \$4,524 as at March 31, 2019.

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Notes to the condensed consolidated interim financial statements

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11. Non-controlling interests (NCI):

As at	March 31, 2019		
	Crown Partners Fund	Crown Power Fund	Total
NCI percentage	63.0%	56.8% ¹	
Beginning balance, January 1, 2019	\$ 127,938	\$ -	\$ 127,938
Net (loss) and comprehensive (loss)	(2,627)	(18)	(2,645)
Contributions	3,492	13,289	16,781
Distributions	(12,065)	-	(12,065)
Balance, March 31, 2019	\$ 116,738	\$ 13,271	\$ 130,009

1. NCI percentage in Crown Power Fund increased from 0.0% to 56.8% effective February 28, 2019.

As at	March 31, 2018	
	Crown Partners Fund	Total
NCI percentage	63.5%	
Beginning balance, January 1, 2018	\$ 118,394	\$ 118,394
Impact of adoption of IFRS 9	(896)	(896)
Adjusted balance, January 1, 2018	117,498	117,498
Net income and comprehensive income	2,033	2,033
Distributions	(2,324)	(2,324)
Balance, March 31, 2018	\$ 117,207	\$ 117,207

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Notes to the condensed consolidated interim financial statements

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12. Net change in non-cash working capital:

Three months ended March 31,	2019	2018
Accounts receivable	\$ (534)	\$ (34)
Prepaid expenses	16	(89)
Accounts payable and accrued liabilities	(286)	(733)
Total	\$ (804)	\$ (856)
Net change attributable to operating activities	(804)	(856)

13. Equipment under development and related deposits:

The Corporation, through Crown Power Fund, holds equipment under development and related deposits that are measured at cost. Costs incurred to date totaled \$9,283, of which \$671 was incurred in the three months ended March 31, 2019 (for the three months ended March 31, 2018 - \$nil). These assets are not currently available for use and are therefore not depreciated.

14. Commitments:

The following is a summary of the Corporation's financial commitments as at March 31, 2019:

The Corporation, through Crown Private Credit Fund and Crown Partners Fund, had unfunded commitments to provide loan advances of \$3,439 and \$6,065, respectively, as at March 31, 2019, of which \$3,821 was attributable to non-controlling interests.

As at March 31, 2019 the Corporation, through Crown Power Fund, had committed to contracts valued at \$1,794 in relation to the construction of power generation assets, of which \$838 was funded, included in equipment under development and related deposits, and \$956 was unfunded.

The Corporation, through CCFC, has an aggregate commitment to provide funding to Crown Partners Fund and CCF IV Investment of \$40,418, as at March 31, 2019.

The Corporation, through CCFC, has an aggregate commitment to provide funding to Crown Power Fund of \$14,909, as at March 31, 2019.

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15. Subsequent events:

The Corporation announced on April 8, 2019 that it received approval to renew its NCIB for a 12-month period commencing April 10, 2019. Under the terms of the renewed NCIB, the Corporation will have the right to purchase up to 300,000 of its common shares, representing approximately 3.1% of its issued and outstanding shares as at March 31, 2019, over the next twelve months, or until such time as the bid is completed or terminated at the Corporation's option. Shares purchased under this bid are purchased on the open market at the prevailing market price at the time of the transaction. Common shares acquired under this bid are cancelled.

On April 29, 2019, Crown Partners Fund provided a \$25 million, 60-month term loan to Rokstad Holdings Corporation ("Rockstad Power") that features a fixed interest rate plus an equity participation right based on the growth in Rokstad Power's equity value. As of May 6, 2019, \$15 million has been advanced to Rokstad Power in relation to this loan.

On May 6, 2019, Crown announced a quarterly dividend of \$0.15 per Common Share payable on May 31, 2019 to Shareholders of record on May 17, 2019.