



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2019**

## ORGANIZATION OF THE MANAGEMENT’S DISCUSSION AND ANALYSIS (“MD&A”)

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“Crown”, the “Corporation”, “we”, “us” or “our” refers to Crown Capital Partners Inc. and its consolidated subsidiaries.

Please refer to the Glossary of Terms beginning on page 53 which defines certain performance measures that we use to measure our business and also defines the names used throughout the MD&A in reference to operating companies, limited partnerships, portfolio companies and their respective subsidiaries.

Additional information about the Corporation, including our Annual Information Form, is available on our website at [www.crowncapital.ca](http://www.crowncapital.ca) and on the Canadian Securities Administrators’ website at [www.sedar.com](http://www.sedar.com). Information contained in or otherwise accessible through the websites mentioned does not form part of this report. All references in this report to websites are inactive textual references and are not incorporated by reference.

# PART 1 – OUR BUSINESS

## BUSINESS OVERVIEW

Crown is a specialty finance company operating in each of the alternative corporate finance, distributed power and telecommunications infrastructure markets. We act as both an asset manager of capital pools invested in alternative asset classes, and as a direct investor, including minority ownership interests in certain of our managed investment funds.

Crown was founded by Crown Life Insurance Company and owned by it until 2002. We completed an initial public offering (“**IPO**”) in 2015 and our common shares (“**Common Shares**”) trade on the Toronto Stock Exchange under the symbol TSX:CRWN.

### Alternative Corporate Financing

In the alternative corporate finance sector, we are focused on providing capital to successful Canadian companies and select U.S. companies seeking alternative financing solutions compared to those provided by traditional capital providers such as banks and private equity funds. Crown originates, structures and provides tailored special situation and long-term financing solutions to a diversified group of private and public mid-market companies in the form of loans, royalties, and other structures with minimal or no ownership dilution. These financing solutions allow business owners to retain the vast majority of the economic rewards associated with the ownership of their respective businesses.

Through its partially owned subsidiary Crown Partners Fund, Crown offers special situations financing solutions to businesses for transitory capital requirements, generally in the form of short- and medium-term senior or subordinated loans (“**Special Situations Financing**”). In addition to investment-related revenues earned by the Corporation in relation to its partial ownership of Crown Partners Fund, Crown also earns fees from non-controlling interests in relation to its management of Crown Partners Fund.

Through its wholly owned subsidiary Crown Private Credit Fund, Crown deploys its capital to clients seeking non-dilutive, long-term capital, generally in the form of traditional interest-bearing loans and royalties (“**Long-Term Financing**”).

Collectively, we refer to Special Situations Financing and Long-term Financing as “**Alternative Corporate Financing**”.

As at December 31, 2019, our investment portfolio, which relates exclusively to our Alternative Corporate Financing business, was carried at \$250.1 million (2018 - \$246.9 million) including Special Situations Financing investments totaling \$214.9 million (2018 - \$206.0 million) and Long-Term Financing investments totaling \$35.2 million (2018 - \$40.9 million).

Crown’s revenue sources from investing activities include interest revenue, transaction fees and realized and unrealized gains on investments made by its consolidated investment funds Crown Partners Fund and Crown Private Credit Fund.

### Distributed Power

Crown is also deploying capital through its partially owned subsidiary Crown Power Fund, an investment fund established in June 2018 to invest directly in power generation assets that provide electricity under long-term contracts to mid- to large-scale electricity users (“**Distributed Power**”). In February 2019, Crown Power Fund completed a closing with subscriptions that increased its total committed capital to \$57.9 million, including an aggregate capital commitment of \$32.9 million by third-party investors, and reduced our ownership of Crown Power Fund, which we hold through wholly owned subsidiary CCFC, from 100.0% to 43.2%.

As at December 31, 2019, Crown Power Fund's aggregate equipment-related investment was carried at \$16.6 million (2018 - \$12.0 million) including amounts invested in distributed power equipment under development and related deposits (\$10.5 million), distributed power equipment (\$5.4 million, included in property and equipment) and net investment in leased distributed power equipment (\$0.6 million).

In addition to revenues earned by the Corporation in relation to its partial ownership of Crown Power Fund, Crown also earns fees from non-controlling interests in relation to its management of Crown Power Fund which were voluntarily waived in 2019 through this fund's early development phase. Crown also anticipates earning revenue in relation to the partial interests that it holds, both directly and through Crown Power Fund, in multiple operating partners of Crown Power Fund as these operating partners achieve scale and profitability.

### **Network Services**

Through WireIE, a wholly owned subsidiary acquired effective July 12, 2019, Crown owns and operates broadband networks that deliver reliable, scalable and secure network availability to businesses in underserved markets ("**Network Services**"). As at December 31, 2019, Crown had invested a total of \$9.4 million in WireIE. Revenue earned by WireIE includes network services revenue, comprised of contractual revenue related to the access and usage of telecommunications infrastructure in addition to revenue from professional services, network support, maintenance and repair services.

Crown's strategy regarding its investment in WireIE involves the planned creation of a capital pool that invests in certain revenue-generating assets of WireIE and, potentially, of other companies operating in its market segment, in which investment commitments from third-party investors will be sought to fund future asset growth, and from which Crown anticipates earning fees in relation to its role as manager of this capital pool.

## **BASIS OF CONSOLIDATION**

We generally invest significant amounts of capital alongside third-party investors in our managed funds, which, in addition to management fees and performance fees, means that we earn meaningful returns as a principal investor in addition to our asset management returns compared to a manager who acts solely as an agent. Contractual arrangements also generally provide us with the irrevocable ability to direct the activities of our managed funds. As a result, in certain cases, we are deemed to control entities in which we hold only a minority economic interest.

All entities that we control are consolidated for financial reporting purposes. As a result, we include 100% of the revenues and expenses of these entities in our Consolidated Statements of Comprehensive Income, even though a substantial portion of their net income is attributable to non-controlling interests. Furthermore, we include all assets and liabilities of these entities in our Consolidated Statements of Financial Position and include the portion of equity held by others as non-controlling interests.

Intercompany revenues and expenses between Crown and its subsidiaries are eliminated in our Consolidated Statements of Comprehensive Income; however, these items affect the attribution of net income between shareholders of the Corporation ("**Shareholders**") and non-controlling interests. For example, management fees paid by Crown Partners Fund and Crown Power Fund are eliminated from consolidated revenues and expenses. However, as the Shareholders are attributed all of the fee revenues while only attributed their proportionate share of the investment funds' expenses, the amount of net income attributable to Shareholders is increased with a corresponding decrease in the net income attributable to non-controlling interests.

Crown holds its interests in Crown Partners Fund, Crown Power Fund and Crown Private Credit Fund through CCFC, a 100%-owned subsidiary.

Crown consolidates 100% of its approximate 38.8% effective interest in Crown Partners Fund (December 31, 2018 – 37.0%), its approximate 43.2% interest in Crown Power Fund (December 31, 2018 – 100%) and its 100% interest in Crown Private Credit Fund and reflects the interests of other investors in these funds, if any, as non-controlling interests.

Crown's 38.8% effective interest in Crown Partners Fund as at December 31, 2019 includes its 37.7% direct interest in Crown Partners Fund in addition to its 19.8% interest in CCF IV Investment LP, whose net assets are comprised solely of a 5.6% interest in Crown Partners Fund. Our effective interest in Crown Partners Fund was 37.0% from October 1, 2018 to December 30, 2019, 37.1% from July 1, 2018 to September 30, 2018 and 36.5% from January 1, 2018 to June 30, 2018.

Crown's 100%-owned subsidiaries CCF III, Crown Partners Fund GP and Crown Power GP are the general partners and managers of NCOF LP, Crown Partners Fund and Crown Power Fund, respectively.

Effective July 12, 2019, Crown acquired a 100% interest in WireIE and its wholly owned subsidiaries, WireIE Canada and WireIE Development Inc.

The financial results of the Corporation as at and for twelve months ended December 31, 2019 discussed in this MD&A include the results of operations of CCF III, CCFC, Crown Partners Fund, Crown Partners Fund GP, Crown Power Fund, Crown Power GP, Crown Private Credit Fund, and, from date of its acquisition on July 12, 2019, WireIE and its wholly owned subsidiaries WireIE Canada and WireIE Development Inc.

## PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

The following section contains a discussion and analysis of line items presented within our consolidated financial statements.

### OVERVIEW

Net income (loss) and comprehensive income (loss) totaled \$(0.2) million in 2019 compared with \$7.1 million in 2018.

The year-over-year decrease in earnings in 2019 was due primarily to the following factors:

- an \$11.1 million realized loss recognized by Crown Partners Fund in relation to its loan investment in Solo;
- the acquisition of WireIE effective July 12, 2019, which had an aggregate net negative impact on earnings before income taxes of \$0.4 million as discussed separately below; and
- a \$2.5 million provision for bad debt recognized in relation to amounts owing from an operating partner formerly affiliated with Crown Power Fund.

The three factors listed above had an aggregate negative after-tax impact of \$5.4 million on the net income attributable to shareholders in 2019, accounting for the majority of the year-over-year variance in income attributable to shareholders. Other lesser contributors to the year-over-year decrease in earnings attributable to shareholders included other net investment gains (i.e., excluding the realized loss on the Solo investment) totaling \$0.4 million compared with net investment gains of \$2.5 million in 2018, increases in legal and GST/HST expenses that management believes will be non-recurring, and an increase in the provision for credit losses.

The above-noted items were partially offset by an increase in the amount of interest income attributable to Shareholders and reductions in each of share-based compensation expense and performance bonus expense.

The acquisition of WireIE effective July 12, 2019 impacted net income attributable to Shareholders before income taxes for 2019 in the following ways:

- a gain on acquisition of \$0.1 million was recognized in connection with the transaction. For details, please refer to *Note 15 – Acquisition of subsidiary* in our consolidated financial statements;
- the pre-existing Long-Term Financing debt arrangement between the Corporation and WireIE was effectively terminated in connection with the acquisition and was deemed to have been settled at fair value, resulting in the recognition of both a realized gain on investment of \$0.3 million and a \$0.1 million recovery of expected credit loss; and
- for the period from July 12, 2019 to December 31, 2019, WireIE contributed a net loss before income taxes of \$0.9 million, inclusive of depreciation expense of \$1.9 million.

Adjusted Funds from Operations in 2019 totaled \$5.3 million compared with \$13.2 million in 2018. Adjusted Funds from Operations decreased in 2019 compared with 2018 due primarily to the recognition of a realized loss related to the Solo investment, the incurrence of a \$2.5 million provision for bad debt, a lower level of net unrealized gains attributable to Shareholders and increases in legal and GST/HST expenses that management believes will be non-recurring.

## INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the Corporation for 2019, 2018 and 2017:

FOR THE YEARS ENDED DEC. 31 (THOUSANDS)				Change	
				2019 vs 2018	2018 vs 2017
	2019	2018	2017		
Revenues					
Interest revenue.....	\$ 28,252	\$ 26,592	\$ 20,311	\$ 1,660	\$ 6,281
Fees and other income.....	3,621	3,540	5,634	81	(2,094)
Performance fee distributions.....	-	-	1,044	-	(1,044)
Network services revenue.....	4,002	-	-	4,002	-
Net realized gain (loss) from investments.....	(9,866)	222	3,344	(10,088)	(3,122)
Net change in unrealized gains (losses) of investments.....	(802)	2,312	(1,325)	(3,114)	3,637
Total revenue	25,207	32,666	29,008	(7,459)	3,658
Expenses					
Salaries, management fees and benefits.....	(4,550)	(2,690)	(2,391)	(1,860)	(299)
Share-based compensation.....	(723)	(1,555)	(1,683)	832	128
General and administration.....	(3,492)	(1,994)	(1,439)	(1,498)	(555)
Cost of network services revenue.....	(1,420)	-	-	(1,420)	-
Performance bonus recovery (expense).....	583	(998)	(2,063)	1,581	1,065
Provision for bad debt.....	(2,526)	-	-	(2,526)	-
Depreciation.....	(2,046)	(34)	(6)	(2,012)	(28)
Provision for credit losses.....	(610)	(118)	-	(492)	(118)
Impairment of distributed power equipment.....	(326)	-	-	(326)	-
Finance costs.....	(3,933)	(2,096)	(559)	(1,837)	(1,537)
Total expenses	(19,043)	(9,485)	(8,141)	(9,558)	(1,344)
Earnings before other adjustments and income taxes	6,164	23,181	20,867	(17,017)	2,314
Gain on acquisition.....	85	-	-	85	-
Non-controlling interests.....	(5,977)	(13,225)	(11,336)	7,248	(1,889)
Income taxes.....	(481)	(2,905)	(2,796)	2,424	(109)
Net income (loss) and comprehensive income (loss).....	(209)	7,051	6,735	(7,260)	316
Net income (loss) per share attributable to Shareholders - basic.....	\$ (0.02)	\$ 0.74	\$ 0.71	\$ (0.76)	\$ 0.03
Net income (loss) per share attributable to Shareholders - diluted....	\$ (0.02)	\$ 0.73	\$ 0.69	\$ (0.75)	\$ 0.04

1. 2017 results have not been restated to reflect the adoption of IFRS 9 effective January 1, 2018, which was applied on a retrospective basis, and are therefore not comparable to the results of subsequent periods which were restated.

2. 2017 and 2018 results have not been restated to reflect the adoption of IFRS 16 effective January 1, 2019, which was applied on a retrospective basis, and are therefore not comparable to the results of subsequent periods which were restated.

## 2019 vs. 2018

### Interest Revenue

FOR THE YEARS ENDED DEC. 31 (THOUSANDS)	2019	2018	Attributable to Shareholders	
			2019	2018
Interest revenue				
Crown Partners Fund.....	\$ 22,383	\$ 21,838	\$ 8,278	\$ 8,041
Crown Private Credit Fund.....	5,631	4,754	5,631	4,754
Crown Power Fund.....	238	-	103	-
<b>Total interest revenue.....</b>	<b>\$ 28,252</b>	<b>\$ 26,592</b>	<b>\$ 14,012</b>	<b>\$ 12,795</b>

Interest revenue totaled \$28.3 million in 2019 compared with \$26.6 million in 2018 and was comprised of:

- interest revenue of \$22.4 million earned by Crown Partners Fund (2018 - \$21.8 million), with the year-over-year increase due primarily to the inclusion of \$3.0 million of interest revenue recognized in relation to the repayments of the BGO, Baylin and Canadian Helicopters loans, which more than offset the impact of a reduction in the average level of interest-yielding investments;
- interest revenue of \$5.6 million earned by Crown Private Credit Fund (2018 - \$4.8 million), with the year-over-year increase due primarily to the inclusion of interest for only a partial year in 2018 in relation to the Mill Street loan, which was made in May 2018, and to an increase in interest revenue in relation to the PenEquity loan for which interest compounded throughout 2019; and
- interest revenue of \$0.2 million recognized by Crown Power Fund (2018 - \$nil), comprised mostly of interest capitalized to distributed power equipment under development and related deposits that will be subsequently recovered through receipt of lease payments over the duration of lease contracts in relation to such assets.

In accordance with International Financial Reporting Standard (“IFRS”) 9, interest revenue on loan investments carried at amortized cost is calculated using the effective interest rate method and includes an amortization component which totaled \$4.6 million in 2019 (2018 - \$1.9 million).

Of total consolidated interest revenue, \$14.0 million was attributable to Shareholders in 2019 compared with \$12.8 million in 2018.



## ***Fees and Other Income***

FOR THE YEARS ENDED DEC. 31 (THOUSANDS)	2019	2018	Attributable to Shareholders	
			2019	2018
Transaction fees and other income <u>received</u> :				
Crown Partners Fund.....	\$ 3,480	\$ 4,105	\$ 1,287	\$ 1,510
Crown Private Credit Fund.....	-	600	-	600
Crown <sup>1</sup> .....	740	1,050	740	1,050
	<u>4,220</u>	<u>5,755</u>	<u>2,027</u>	<u>3,160</u>
Less: Transaction fees <u>deferred</u> in relation to investments carried at amortized cost				
Crown Partners Fund.....	(1,440)	(1,735)	(532)	(638)
Crown Private Credit Fund.....	-	(300)	-	(300)
Crown.....	(240)	(970)	(240)	(970)
Transaction fees and other income <u>recognized</u> .....	<u>2,540</u>	<u>2,750</u>	<u>1,254</u>	<u>1,252</u>
Royalty revenue.....	839	476	310	175
Other interest income <sup>2</sup> .....	165	217	146	217
Management fee revenue <sup>3,4</sup> .....	77	97	77	97
<b>Total fees and other income.....</b>	<b><u>\$ 3,621</u></b>	<b><u>\$ 3,540</u></b>	<b><u>\$ 1,787</u></b>	<b><u>\$ 1,741</u></b>

1. Includes fees attributable to Crown in its role as an investment manager.

2. Other interest income is comprised of interest earned on cash and cash equivalents and on share purchase loans.

3. Management fee revenue excludes fees charged to Crown Partners Fund and Crown Power Fund, which are eliminated on consolidation.

4. Management fee revenue includes fees from investment management services provided to a third party financial institution.

In 2019, we recognized fees and other income totaling \$3.6 million (2018 - \$3.5 million) comprised of:

- transaction fees and other income of \$2.5 million (2018 - \$2.8 million), as discussed separately below;
- royalty revenue of \$0.8 million (2018 - \$0.5 million) earned in respect of royalty arrangements by Crown Partners Fund which increased compared with 2018 due in part to a full year of contribution in 2019 from the Triple Five royalty that was established in August 2018;
- interest income of \$0.2 million (2018 - \$0.2 million) earned in relation to cash and share purchase loans; and
- management fees of \$0.1 million earned in relation to investment management services provided to a third-party financial institution compared to \$0.1 million of management fees earned in 2018 in relation to NCOF LP.

Of total consolidated fees and other income recognized in 2019, \$1.8 million was attributable to Shareholders compared to \$1.7 million in 2018.

### *Transaction fees and other income*

The Corporation may receive transaction fees and other income when loans are initially made, when loans are repaid prior to maturity and in other instances, for example, for providing amendments, waivers, consents or forbearance agreements. Transaction fees received in relation to loans carried at amortized cost are not recognized as fee income in the periods received and are instead deferred and amortized as a component of interest revenue calculated using the effective interest rate method. The level of aggregate transaction and other fees received may vary from period to period depending on the number and size of investment transactions, loan repayments, loan amendments, etc.

We recognized transaction fees and other income in 2019 totaling \$2.5 million compared to \$2.8 million in 2018. In 2019, we received additional transaction fees totaling \$0.7 million and capitalized an additional \$1.0 million of other fees to loan principal value (2018 - \$3.0 million in total) in relation to loans carried at amortized cost, which were not

recognized as fee income in the periods. In aggregate, we received or capitalized transaction and other fees totaling \$4.2 million compared with \$5.8 million in 2018.

### ***Net Investment Gains (Losses)***

FOR THE YEARS ENDED DEC. 31 (THOUSANDS)	2019	2018	Attributable to Shareholders	
			2019	2018
Net realized gains (losses) on investments				
Crown Partners Fund.....	<b>\$ (10,132)</b>	\$ 222	\$ (3,746)	\$ 81
Crown Private Credit Fund.....	<b>266</b>	-	266	-
<b>Total realized gains (losses) .....</b>	<b>(9,866)</b>	222	(3,481)	81
Net unrealized gains (losses) on investments				
Crown Partners Fund.....	<b>(1,275)</b>	1,976	(471)	730
Crown Private Credit Fund.....	<b>506</b>	337	506	337
Crown <sup>1</sup> .....	<b>(33)</b>	(1)	(33)	(1)
<b>Total unrealized gains (losses).....</b>	<b>(802)</b>	2,312	2	1,066
<b>Total net gains (losses) on investments.....</b>	<b>\$ (10,668)</b>	<b>\$ 2,534</b>	<b>\$ (3,479)</b>	<b>\$ 1,147</b>

1. Represents gains(losses) on investments held directly by Crown (i.e., not by a subsidiary investment fund).

In 2019, we recognized a net loss on investments of \$10.7 million (2018 – net gain of \$2.5 million), including both realized and unrealized gains (losses), of which a net loss of \$3.5 million was attributable to Shareholders (2018 – net gain of \$1.1 million).

The net realized loss of \$9.9 million in 2019 includes a net realized loss of \$10.1 million incurred by Crown Partners Fund, comprised of a realized loss of \$11.1 million on the Solo investment and a partially offsetting gain of \$0.9 million realized on the repayment of the Baylin loan, as well as a realized gain of \$0.3 million recognized by Crown Private Credit Fund on the settlement of the pre-existing WireIE loan investment.

The net realized gain of \$0.2 million recorded in 2018 was in relation to Crown Partners Fund’s investment in Petrowest.

There was a net negative change in unrealized gains (losses) of investments in 2019 of \$0.8 million of which the most significant unrealized losses related to a net decrease in the fair value of equity-related securities, including a decrease in the fair value of the RBee common shares, and the reversal of previously-recognized unrealized gains in respect of loan repayments (i.e., upon realization of gains in respect of these repayments), and the most significant unrealized gains related to increases in the fair values of the Touchstone and Triple Five royalties resulting mainly from the extension of their respective terms, a net increase in the aggregate fair value of loans held at fair value through profit and loss (“FVTPL”), and unrealized gains recognized in relation to the restructuring of loans measured at amortized cost.

In accordance with IFRS 9, unrealized gains (losses) are not recognized in relation to investments carried at amortized cost unless the estimated timing and/or amount of cash receipts in relation to an investment are revised, in which case the gross carrying value of the investment is revised to equal the net present value of the revised cash flows discounted at the investment’s previous effective interest rate. Unrealized gains totaling \$2.4 million were recognized in 2019 in relation to the restructuring of the terms of four loans measured at amortized cost.

In 2018, there was a net positive change in unrealized gains (losses) of investments of \$2.3 million, of which the most significant contributors were a gain resulting from an extension of the Touchstone royalty, an increase in the fair value of the RBee common shares, and a reversal of a previously recognized unrealized loss upon repayment of the Marquee loan investment.

### ***Network Services Revenue***

Through its wholly owned subsidiary WireIE, which was acquired in July 2019, the Corporation earns revenue in relation to the provision of network services. Network services revenue is comprised of contractual revenue related to the access and usage of telecommunications infrastructure in addition to revenue from professional services, network support, maintenance and repair services. The Corporation's 2019 revenues include network services revenue of \$4.0 million (2018 - \$nil).

The vast majority of network services revenue is contractual revenue in relation to the access and usage of telecommunications infrastructure comprised of both up-front payments related to the installation of network elements by the customer, which are deferred and recognized on a straight line basis over the life of the contract, and monthly recurring revenues relating to the ongoing operation of network services that are recognized as the service is rendered over the term of the arrangement. Upon the acquisition of WireIE in July 2019, the balance of deferred network services revenue was assigned a fair value of \$nil by Crown. Accordingly, network services revenue recognized for the period from July 12, 2019 to December 31, 2019 does not include any amount in relation to the amortization of deferred network services revenue received prior to July 12, 2019 that related to network services contracts in effect at the time of the acquisition.

### ***Expenses***

Salaries, management fees and benefits expense increased by \$1.9 million in 2019 to \$4.6 million, including \$0.6 million attributable to WireIE compared to \$nil in 2018. Other than the increase related to WireIE, which was acquired in July 2019, the increase in salaries, management fees and benefits expense in 2019 was due primarily to an increase in the number of employees to support new business initiatives during the year.

Share-based compensation expense, which is recognized over the expected vesting period of each award, decreased by \$0.8 million in 2019 to \$0.7 million due mainly to the vesting in July 2018 of transition restricted share units that had been issued in 2015, as well as to a reduction in the number of restricted share units and performance share units outstanding. Additional information about share-based compensation can be found in *Note 7, Share-based compensation* in the Corporation's consolidated financial statements.

General and administration expenses include costs such as legal and audit fees, travel, promotion, occupancy costs, insurance, office administration and other costs. General and administration expenses totaled \$3.5 million in 2019 (2018 - \$2.0 million) with the \$1.5 million increase due primarily to:

- the inclusion in 2019 of \$0.5 million of general and administration expenses in relation to WireIE, which was acquired in July 2019 (2018 - \$nil);
- a \$0.4 million increase in general and administration expenses attributable to Crown Power Fund to \$0.7 million (2018 - \$0.3 million) that relates primarily to an increase in professional fees that management believes will be non-recurring in nature;
- a \$0.6 million increase in general and administration expenses attributable to Crown Partners Fund to \$0.8 million (2018 - \$0.2 million) that relates primarily to two factors that management believes will be non-recurring in nature, namely legal fees incurred in respect of the Solo recovery process and a GST/HST expense incurred in relation to prior-periods; and
- a \$0.2 million increase in corporate-level general and administration expenses to \$1.6 million (2018 - \$1.4 million) due primarily to an increase in GST/HST expense that relates primarily to an assessment in respect of which Crown has filed a formal notice of objection, partially offset by a reduction in occupancy expense following the adoption of IFRS 16 under which only a portion of payments in respect of office leases are classified as occupancy expense.

Through its wholly owned subsidiary WireIE, which was acquired in July 2019, the Corporation incurs costs directly related to the generation of revenue earned in relation to the provision of network services. For the year ended December 31, 2019, the cost of network services revenue totaled \$1.4 million (2018 - \$nil), primarily comprised of bandwidth fees of \$1.1 million and network equipment maintenance costs of \$0.2 million.

The Corporation has asset performance bonus pool (“**APBP**”) arrangements for certain individuals, primarily employees (“**APBP Participants**”), whereby a portion of performance fees recognized in consolidated earnings to date in relation to certain investment funds managed by the Corporation will be payable to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners of the related investment funds. In 2019, we recognized a performance bonus recovery of \$0.6 million (2018 – expense of \$1.0 million) reflecting a change in the level of accrued performance fee relating to Crown Partners Fund that was primarily due to the realized loss recognized in respect of the investment in Solo.

The provision for bad debt of \$2.5 million recorded in 2019 (2018 - \$nil) represents the gross amount receivable from a former operating partner affiliated with Crown Power Fund. It relates to advances from the Corporation that were used by the former operating partner to fund unauthorized operating expenses. As this provision was incurred directly by the Corporation rather than by its subsidiary Crown Power Fund, it is fully attributable to Shareholders. Since the initial recognition of a \$3.0 million provision for bad debt in the three months ended March 31, 2019, an aggregate recovery of \$0.5 million has been recognized in relation to this bad debt, including a recovery of \$0.05 million in the three months ended December 31, 2019. While the Corporation intends to pursue recovery of this amount, the related provision for bad debt reflects the Corporation’s current assessment of the recoverability of this receivable.

Depreciation expense totaled \$2.0 million in 2019, an increase of \$2.0 million compared with the prior year, and was comprised primarily of:

- depreciation of the right-of-use assets associated with network services equipment and property lease arrangements totaling \$0.8 million, an amount that was \$nil in 2018 (i.e., prior to the adoption of IFRS 16);
- depreciation of network services equipment totaling \$0.6 million that was recognized following the acquisition of WireIE in July 2019; and
- depreciation of \$0.6 million in relation to network services contracts recognized as intangible assets with finite useful lives in connection with the WireIE acquisition.

The provision for credit losses totaled \$0.6 million in 2019, an increase of \$0.5 million compared with the prior year, and was comprised of:

- a provision for credit losses of \$0.5 million (2018 - \$0.1 million) in relation to debt investments carried at amortized cost which increased compared to 2018 primarily due to an increase in the overall level of default risk for the loan portfolio;
- a provision for credit losses of \$0.1 million (2018 - \$nil) in relation to the accounts receivable of WireIE; and
- a nominal provision for credit losses established in relation to the net investment in leased distributed power equipment held by Crown Power Fund.

For financial assets, including debt investments, carried at amortized cost, the Corporation determines expected credit losses in accordance with IFRS 9 which, cumulatively, represent an allowance for credit losses that is deducted in determining the net amortized cost, and therefore the carrying value, of such assets. The provision for credit losses primarily reflects changes in the allowance for credit losses resulting from factors such as the addition or repayment of financial assets carried at amortized cost or revisions to the expected credit losses for existing assets carried at amortized cost.

An impairment charge of \$0.3 million was recognized in 2019, comprised of:

- a \$0.1 million impairment charge recognized upon the transfer of certain assets from distributed power equipment under development and related deposits to the property and equipment classification, at which point we determined that certain capitalized costs would no longer be recoverable. The impairment charge reflects our assessment of the net realizable value of the transferred assets; and
- a \$0.2 million impairment charge recognized in relation to network services equipment decommissioned upon termination of related services contracts in the period.

Finance costs totaled \$3.9 million in 2019, an increase of \$1.8 million compared to the prior year, and were comprised of:

- current period interest accruals, standby fees and the amortization of deferred financing costs related to the Crown Credit Facility totaling \$1.2 million (2018 - \$1.3 million), with the comparability to the prior year amount due to a comparable average level of debt outstanding in relation to this facility;
- current period interest accruals, standby fees and the amortization of deferred financing costs related to the CCPF Credit Facility of \$1.0 million (2018 - \$nil), with the year-over-year increase explained by the establishment of this facility in February 2019;
- interest expense in relation to the Convertible Debentures, determined using the effective interest rate method as these debentures are measured at amortized cost, of \$1.5 million (2018 - \$0.8 million), with the year-over-year increase explained by the timing of the issuance of these debentures in June 2018; and
- interest in relation to right-of-use lease arrangements totaling \$0.2 million in 2019 (2018 - \$nil), an increase compared with 2018 due to the adoption of IFRS 16 effective January 1, 2019.

Additional information about the credit facilities and Convertible Debentures can be found in *Note 8 – Credit facilities* and *Note 9 – Convertible Debentures* in the Corporation’s consolidated financial statements.

### ***Income Taxes***

We recorded an aggregate income tax expense of \$0.5 million in 2019, compared to a \$2.9 million expense in the prior year, including a current tax expense of \$0.3 million (2018 - \$2.4 million) and a deferred tax expense of \$0.2 million (2018 - \$0.5 million).

For the year ended December 31, 2019, the net loss attributable to WireIE for the period, the loss on acquisition in relation to WireIE, the depreciation of intangible assets in relation to WireIE and non-cash share-based compensation expense were not deductible for purposes of determining current income tax expense.

The Corporation’s consolidated statutory tax rate for 2019 on earnings before income taxes attributable to Shareholders was 26.5%. As an asset manager, many of our operations are held in partially owned “flow through” limited partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings include income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only income tax on our proportionate share of the income of these entities. In other words, we are consolidating all of the net income, but only our share of the associated tax provision.

The deferred income tax asset at December 31, 2019 of \$0.1 million (December 31, 2018 - \$0.4 million) and deferred tax expenses for 2019 result primarily from financing costs associated with the IPO, the Crown Credit Facility and the Convertible Debentures which are deductible for tax purposes over a five-year period, the income tax impact of financing fees on debt instruments previously recognized as income under International Accounting Standard 39 that were reversed upon transition to IFRS 9, and performance bonus expenses which are not deductible for tax purposes until they are paid in future periods.

## **2018 vs. 2017**

### ***Revenues***

Interest revenue of \$26.6 million in 2018 (2017 - \$20.3 million) increased by \$6.3 million compared with the previous year and was comprised of \$21.8 million in relation to the investments of Crown Partners Fund (2018 - \$15.2 million) and \$4.8 million in relation to the long-term financing investments of Crown Private Credit Fund (2018 - \$3.5 million), each of which increased due to an increased average level of interest-yielding investment. No interest revenue was recognized in relation to NCOF II in 2018 (2017 - \$1.7 million) following its dissolution in 2017. Interest revenue attributable to Shareholders in 2018 was \$12.8 million (2017 - \$10.1 million).

Fees and other income totaled \$3.5 million in 2018 compared with \$5.6 million in 2017, of which \$1.7 million and \$2.9 million, respectively, were attributable to Shareholders. Fees and other income decreased in 2018 compared with 2017 due primarily to the adoption of IFRS 9, which requires deferring transaction fees in relation to investments carried at amortized cost with such fees amortized into interest income over the terms of related loans using the effective interest rate method. In 2018, we received transaction fees totaling \$3.0 million in relation to loans carried at amortized cost which were not recognized as fee income.

In 2017, we recognized a performance fee distribution of \$1.0 million in relation to the dissolution of NCOF II Parallel (2018 - \$nil), of which \$0.8 million was attributable to APBP Participants and was included in performance bonus expense for the period.

In 2018, we recognized a net gain on investments of \$2.5 million (2017 - \$2.0 million), including both realized and unrealized gains (losses), of which \$1.1 million was attributable to Shareholders (2017 - \$0.6 million).

A realized gain of \$0.2 million was recorded in 2018 in relation to Crown Partners Fund's investment in Petrowest. This compares to a net realized gain of \$3.3 million in 2017, of which \$1.9 million related to two loan repayments within NCOF II and \$1.5 million in respect of Crown Partners Fund related to gains arising from three loan repayments and from a disposition of common shares, partially offset by a reduction in the carrying value of Petrowest common shares to \$nil.

There was a net positive change in unrealized gains (losses) of investments in 2018 of \$2.3 million, of which the most significant contributors were a gain in resulting from an extension of the Touchstone royalty, an increase in the fair value of the RBee common shares, and a reversal of a previously-recognized unrealized loss upon repayment of the Marquee loan investment. The net negative change in unrealized gains (losses) of investments in 2017 of \$(1.3) million included aggregate losses of \$4.4 million representing the reversal of previously-recognized unrealized gains upon loan repayments, offset by net unrealized gains on other investments of \$3.0 million including a gain on the Medicare loan prior to its repayment and a gain recognized upon the receipt of Source common shares.

### ***Expenses***

Salaries, management fees and benefits expense increased by \$0.3 million in 2018 to \$2.7 million due primarily to an increase in the number of employees.

Share-based compensation expense decreased by \$0.1 million in 2018 to \$1.6 million due mainly to the vesting in July 2018 of transition restricted share units that had been issued in 2015 and to a reduction in the number of restricted share units and performance share units outstanding, partially offset by an increase in the number of director deferred share units outstanding following the introduction of this type of share-based award in 2018.

General and administrative expenses increased by \$0.6 million in 2018 to \$2.0 million due primarily to start-up costs related to the formation of Crown Power Fund, an increase in occupancy costs relating to a new five-year office lease arrangement and professional fees paid in respect of new investments, partially offset by lower travel expense.

The performance bonus expense decreased by \$1.1 million in 2018 to \$1.0 million. This decrease was due primarily to the inclusion in 2017 of a performance bonus expense of \$0.8 million in relation to NCOF II Parallel that had been recognized in conjunction with a \$1.0 million performance fee distribution upon the dissolution of that investment fund.

The provision for credit losses increased from \$nil in 2017 to \$0.1 million in 2018 following the adoption of IFRS 9 effective January 1, 2018. The provision for credit losses in 2018 was recorded in relation to debt investments carried at amortized cost.

Finance costs totaled \$2.1 million in 2018, an increase of \$1.5 million compared to the prior year, and were comprised of:

- current period interest accruals, standby fees and the amortization of deferred financing costs related to the Crown Credit Facility totaling \$1.3 million (2017 - \$0.6 million). No advances in respect of this facility were made until 2018 such that the related expense in 2017 included only standby fees and amortization of deferred financing costs; and
- interest expense in relation to the Convertible Debentures, determined using the effective interest rate method as these debentures are measured at amortized cost, of \$0.8 million (2017 - \$nil), with the year-over-year increase explained by the timing of the issuance of these debentures in June 2018.

## BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at December 31, 2019, 2018 and 2017:

AS AT DEC. 31 (THOUSANDS)	2019	2018	2017	Change	
				2019 vs 2018	2018 vs 2017
<b>Assets</b>					
Cash and cash equivalents.....	\$ 8,361	\$ 11,307	\$ 41,106	\$ (2,946)	\$ (29,799)
Accounts receivable and other assets.....	11,724	5,628	6,631	6,096	(1,003)
Investments.....	250,137	246,862	181,302	3,275	65,560
Property and equipment.....	14,876	124	11	14,752	113
Network services contracts.....	3,371	-	-	3,371	-
Net investment in leased distributed power equipment.....	644	-	-	644	-
Distributed power equipment under development and deposits.....	10,540	12,000	-	(1,460)	12,000
<b>Total assets</b>	<b>\$ 299,653</b>	<b>\$ 275,921</b>	<b>\$ 229,050</b>	<b>\$ 23,732</b>	<b>\$ 46,871</b>
<b>Liabilities</b>					
Accounts payable and other liabilities.....	7,279	4,460	3,542	2,819	918
Lease obligations.....	4,324	-	-	4,324	-
Provision for performance bonus.....	2,096	2,679	2,665	(583)	14
Promissory notes payable .....	8,512	-	-	8,512	-
Credit facilities.....	38,406	17,730	-	20,676	17,730
Convertible debentures - liability component.....	18,562	18,222	-	340	18,222
Non-controlling interests.....	122,996	127,938	118,394	(4,942)	9,544
<b>Equity</b>					
Share capital.....	95,342	97,615	96,570	(2,273)	1,045
Convertible debentures - equity component.....	483	483	-	-	483
Contributed surplus.....	1,087	1,397	2,931	(310)	(1,534)
Retained earnings.....	566	5,397	4,948	(4,831)	449
<b>Total equity.....</b>	<b>97,478</b>	<b>104,892</b>	<b>104,449</b>	<b>(7,414)</b>	<b>443</b>
	<b>\$ 299,653</b>	<b>\$ 275,921</b>	<b>\$ 229,050</b>	<b>\$ 23,732</b>	<b>\$ 46,871</b>
<b>Total non-current financial liabilities<sup>3</sup>.....</b>	<b>\$ 63,799</b>	<b>\$ 38,896</b>	<b>\$ 2,665</b>	<b>\$ 24,903</b>	<b>\$ 36,231</b>

1. The amounts for the year ended December 31, 2017 have not been restated to reflect the adoption of IFRS 9 effective January 1, 2018, which was applied on a retrospective basis, and are therefore not comparable to amounts as at subsequent dates which were restated.

2. The amounts for the years ended December 31, 2018 and 2017 have not been restated to reflect the adoption of IFRS 16 effective January 1, 2019, which was applied on a retrospective basis, and are therefore not comparable to amounts as at subsequent dates which were restated.

3. Total non-current financial liabilities is comprised of credit facilities, convertible debentures - liability component, provision for performance bonus, the non-current portion of lease obligations, the contingent consideration liability (included in accounts payable in other liabilities) and the deferred compensation liability (included in accounts payable and other liabilities).

### 2019 vs. 2018

Consolidated assets at December 31, 2019 were \$299.7 million, an increase of \$23.7 million since December 31, 2018. This increase was due primarily to the July 12, 2019 acquisition of WireIE, which added \$16.2 million of assets primarily in the property and equipment, network services contracts and accounts receivable asset classes, effective July 12, 2019, as well as to a \$3.3 million net increase in investments and a \$4.6 million aggregate net increase in the equipment-related assets of Crown Power Fund.



## *Assets*

Cash and cash equivalents of \$8.4 million as at December 31, 2019 decreased by \$2.9 million compared to the prior year end. For further information, refer to our Consolidated Statements of Cash Flows and to *Part 4 – Capitalization and Liquidity*.

Accounts receivable and other assets of \$11.7 million as at December 31, 2019 (December 31, 2018 - \$5.6 million) consists of accounts receivable, income taxes recoverable, prepaid expenses and deposits, share purchase loans and deferred income taxes. The largest component, accounts receivable, is comprised primarily of interest receivable from investments, GST/HST recoverable by Crown Power Fund, amounts receivable in relation to network services contracts and management fees receivable from NCOF LP. Accounts receivable and other assets increased by \$6.1 million in 2019 primarily due to an increase in interest receivable in relation to the PenEquity loan to \$4.7 million as at December 31, 2019 (2018 - \$1.3 million) and to amounts assumed on the acquisition of WireIE, partially offset by a decrease in the balance of share purchase loans outstanding.

Investments of \$250.1 million as at December 31, 2019 consist of Canadian debt securities, Canadian equity securities and other investments. The balance increased by \$3.3 million in 2019 due primarily to:

- additions to investments, including capitalized interest and net of repayment of debt securities, of \$21.7 million; net of
- net investment losses, including a net realized loss and the net change in unrealized gains (losses) in fair value of investments, of \$10.7 million;
- the derecognition of the Corporation's loan investment in WireIE on the acquisition of WireIE, which had a net carrying value of \$7.2 million at the time of derecognition; and
- an increase in the allowance for credit losses of \$0.5 million.

At December 31, 2019, the Corporation held investments in 15 Canadian companies, including loans to 12 companies, carried at an aggregate carrying value of \$250.1 million (December 31, 2018 - \$246.9 million). In accordance with IFRS 9, the Corporation classifies its investments in debt securities to be carried at either amortized cost or FVTPL. All investments in equity securities are carried at FVTPL.

As at December 31, 2019, the Corporation held debt securities in 9 Canadian companies carried at amortized cost with an aggregate carrying value of \$164.7 million, net of an allowance for credit losses of \$0.7 million. The fair value of these debt securities as at the reporting date was \$166.1 million. As at December 31, 2019, the Corporation held debt securities in 4 Canadian companies carried at FVTPL with an aggregate carrying value of \$72.2 million. The carrying value of other investments carried at FVTPL, including equity securities, as at December 31, 2019 was \$13.2 million.

As at December 31, 2019, \$106.4 million (2018 - \$43.2 million) of the \$164.7 million (2018 - \$165.3 million) carrying value of debt securities carried at amortized cost was classified as Stage Two. The Stage Two classification represents loans for which credit loss has increased significantly since initial recognition, and for which credit loss provisions are determined based on lifetime expected credit losses (i.e., vs. Stage One investments, for which provisions are based on 12 months expected credit losses). In 2019, the percentage of investments at amortized cost classified as Stage Two increased due to a general increase in the credit risk of the loan portfolio that resulted in a migration of loans from Stage One to Stage Two classification. With our secured lending model, we believe that our allowance for credit losses in respect of loan investments is sufficient to provide for currently expected losses in the portfolio.

Additional information about investments can be found in *Note 4, Financial instruments* in the Corporation's consolidated financial statements and in *Part 3 – Review of Operations*.

Property and equipment of \$14.9 million is comprised of:

- network services equipment, including right-of-use assets in relation to leased equipment and properties. The balance increased by \$8.9 million in 2019 due primarily to the assumption of \$10.0 million of related assets on the acquisition of WireIE;
- distributed power equipment representing power generation assets acquired by Crown Power Fund that are not assigned for use in specific projects in development. These assets were transferred in Q4 2019 from distributed power equipment under development and related deposits and were carried at \$5.4 million as at December 31, 2019 (December 31, 2019 - \$nil), net of an impairment charge of \$0.1 million recognized in the fourth quarter of 2019; and
- office and other equipment of \$1.0 million.

The network services contracts balance of \$3.4 million as at December 31, 2019 (December 31, 2018 - \$nil) is an intangible asset representing the fair value of service contracts assumed on the acquisition of WireIE of \$4.0 million, net of subsequent amortization. Network services contracts are amortized on a straight-line basis over estimated useful lives ranging between 4-6 years, and the recoverability of the carrying value is assessed at each reporting date.

Net investment in leased distributed power equipment represents power generation assets subject to contractual lease agreements. There was one such lease in effect as at December 31, 2019, which was transferred in Q4 2019 from distributed power equipment under development and related deposits and which was carried at \$0.6 million (December 31, 2018 - \$nil).

Distributed power equipment under development and related deposits of \$10.5 million as at December 31, 2019 consists of power generation assets acquired in relation to projects under development. The balance decreased by \$1.5 million in 2019 due primarily to:

- purchases of equipment totaling \$7.3 million; net of
- transfers of \$5.5 million and \$0.6 million to distributed power equipment and net investment in leased distributed power equipment, respectively;
- an impairment charge of \$0.1 million; and
- a reclassification of \$2.5 million to accounts receivable in respect of which a \$2.5 million allowance for credit losses has been recognized (refer to *Note 4(e) – Financial instruments, other receivable* in our consolidated financial statements).

### ***Liabilities***

Accounts payable and other liabilities of \$7.3 million as at December 31, 2019 consists of accounts payable and accrued liabilities of \$4.1 million, distributions payable to non-controlling interests of \$2.4 million, deferred network services revenue, a contingent consideration liability, a deferred compensation liability and income taxes payable. The balance increased by \$2.8 million in 2019 due primarily to a balance of \$2.8 million assumed on the acquisition of WireIE and the addition of deferred network services revenue of \$0.3 million, partially offset by \$0.3 million decreases in each of income taxes payable and distributions to non-controlling interests.

Lease obligations of \$4.3 million is comprised of \$4.2 million of lease obligations in relation to network services equipment and properties that were assumed on the acquisition of WireIE in 2019, including the usage of third-party tower space through network co-location arrangements, plus \$0.1 million in relation to office leases that had been classified as operating leases prior to the application of IFRS 16 in 2019. Lease obligations are largely offset by right-of-use lease assets included in property, office equipment and network services equipment. As a lessee, the

Corporation recognizes right-of-use assets and lease liabilities for most leases and recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The provision for performance bonus of \$2.1 million (December 31, 2018 - \$2.7 million) reflects the portion of performance fees related to the Crown Partners Fund APBP recognized in consolidated earnings to date that will be payable to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners of Crown Partners Fund. Subject to specified fund diversification and performance hurdles, advances on account of accrued performance fees may be paid to APBP Participants on an annual basis. The provision that has accrued in relation to the performance of Crown Partners Fund decreased in 2019 primarily due to a loss realized in relation to the investment in Solo. To date, no amounts have been accrued in relation to the Crown Power Fund APBP.

Promissory notes of \$8.5 million as at December 31, 2019 (December 31, 2018 - \$nil) represent amounts payable in respect to the redemption of limited partnership units of Crown Partners Fund effective December 31, 2019. The promissory notes bear interest at 8% per annum and are to be repaid by Crown Partners Fund in four equal quarterly installments at the end of each calendar quarter commencing March 31, 2020. Any proceeds to Crown Partners Fund from the disposition or repayment of investments in excess of \$5.0 million must be applied as a prepayment of promissory notes payable.

Credit facilities of \$38.4 million as at December 31, 2019 (December 31, 2018 - \$17.7 million) was comprised of \$13.9 million outstanding under the Crown Credit Facility and \$24.5 million outstanding under the CCPF Credit Facility, net of unamortized deferred financing costs of \$0.4 million and \$0.5 million, respectively. The \$20.7 million increase in credit facilities was comprised of a \$24.5 million increase in the CCPF Credit Facility, which was established in 2019 and which was used to fund additions to investments of Crown Partners Fund, partially offset by a \$3.8 million reduction in the amount outstanding in relation to the Crown Credit Facility.

For further information regarding credit facilities and Convertible Debentures, refer to *Part 4 – Capitalization and Liquidity*.

## **2018 vs. 2017**

Consolidated assets as at December 31, 2018 were \$275.9 million, compared to \$229.1 million as at December 31, 2017. The year-over-year increase of \$46.9 million was primarily due to increased levels of both investments and of distributed power equipment under development and related deposits, net of a decrease in cash and cash equivalents.

Accounts receivable and other assets of \$5.6 million as at December 31, 2018 decreased by \$1.0 million compared to December 31, 2017 due mainly to a \$1.6 million reduction in share purchase loans (to \$0.6 million) following the partial refinancing of these loans by employees with a third-party financial institution, reductions in each of prepaid expenses and deferred income taxes, and partially offset by a \$1.3 million increase in accounts receivable comprised mainly of an increase in interest receivable in relation to loan investments.

Investments of \$246.9 million as at December 31, 2018 increased by \$65.6 million in 2018 due mainly to additions to investments, net of repayment of debt securities, of \$64.9 million and net investment gains of \$2.5 million, net of the establishment of an allowance for credit losses of \$0.2 million.

Distributed power equipment under development and related deposits increased from \$nil as at December 31, 2017 to \$12.0 million as at December 31, 2018 due to the initial investment activity of Crown Power Fund following its inception in 2018.

Credit facilities of \$17.7 million as at December 31, 2018, net of unamortized deferred financing costs of \$0.3 million, increased from \$nil as at December 31, 2017 due to initial advances drawn from the Crown Credit Facility to partially fund net additions to investments and projects under development and related deposits.

The liability component of convertible debentures relates to the issuance of \$20.0 million of unsecured convertible debentures in 2018. The \$18.2 million balance at December 31, 2018 (December 31, 2017 - \$nil) reflects gross proceeds from the issuance net of unamortized issuance costs and the portion of the issuance proceeds deemed to be an equity component. For further information, refer to *Part 4 – Capitalization and Liquidity*.

Accounts payable and other liabilities of \$4.5 million as at December 31, 2018 consists of accounts payable and accrued liabilities of \$1.1 million, distributions payable to non-controlling interests of \$2.8 million, a deferred compensation liability of \$0.3 million and income taxes payable of \$0.3 million. The balance increased by \$0.9 million in 2018 mainly due to a \$0.8 million increase in distributions payable to non-controlling interests that related to an increase in the average level of investments held by Crown Partners Fund.

### Non-controlling Interests

Non-controlling interests in our consolidated results consist of third-party interests in Crown Partners Fund and Crown Power Fund as follows:

AS AT DEC. 31 (THOUSANDS)	2019	2018	Change
Crown Partners Fund.....	\$ 110,010	\$ 127,938	\$ (17,928)
Crown Power Fund.....	12,986	-	12,986
	<u>\$ 122,996</u>	<u>\$ 127,938</u>	<u>\$ (4,942)</u>

Non-controlling interests decreased by \$(4.9) million during the twelve-month period, primarily due to:

- \$39.3 million of distributions to non-controlling interests, including capital returned by Crown Partners Fund in relation to loan repayments; partially offset by
- net income attributable to non-controlling interests of \$6.0 million;
- non-controlling interests' contributions to Crown Partners Fund and Crown Power Fund totaling \$36.9 million; and
- the redemption of limited partnership units in Crown Partners Fund by non-controlling interests valued at \$8.5 million.

## Common Equity

The following table presents the major contributors to the period-over-period variances for common equity:

AS AT AND FOR THE YEARS ENDED DEC. 31 (THOUSANDS)	2019	2018
Equity, beginning of year.....	<u>\$ 104,892</u>	<u>\$ 103,561</u>
Changes in period:		
Net income (loss) attributable to Shareholders.....	(209)	7,051
Dividends declared.....	(5,723)	(5,733)
Shares repurchased.....	(1,811)	(1,300)
Share-based compensation.....	454	1,385
Cash-settled share-based compensation.....	(125)	(555)
Conversion feature of convertible debentures issued, net of tax effect.....	-	483
	<u>(7,414)</u>	<u>1,331</u>
Equity, end of year.....	<u>\$ 97,478</u>	<u>\$ 104,892</u>

Total equity decreased by \$7.4 million during 2019 due to the following:

- a net loss attributable to Shareholders of \$0.2 million;
- dividends declared to Shareholders of \$5.7 million;
- share repurchases made in relation to the Corporation's normal course issuer bid totaling \$1.8 million; and
- share-based compensation, net of cash-settled share-based compensation, of \$0.3 million.

As at December 31, 2019 the share capital component of total equity was \$95.3 million (December 31, 2018 - \$97.6 million). The \$2.3 million decrease in share capital in the twelve months ended December 31, 2019 relates to share repurchases, which resulted in a \$2.4 million reduction in share capital of which \$0.6 million was transferred to retained earnings, and to the issuance of Common Shares valued at \$0.1 million to employees and directors as a result of vesting of restricted share units.

The contributed surplus component of total equity as at December 31, 2019 was \$1.1 million, \$0.3 million lower than \$1.4 million as at December 31, 2018. This decrease reflects an addition of \$0.5 million in relation to share-based compensation expense recorded for share units and stock options outstanding during the period less \$0.1 million transferred to share capital for share units vested, \$0.1 million for cash-settled share-based compensation and \$0.5 million transferred to retained earnings in relation to the cancellation of stock options.

The dividends declared by the Corporation on outstanding Common Shares during the past three years have totaled \$0.60 per Common Share in 2019, \$0.60 per Common Share in 2018 and \$0.50 per Common Share in 2017.

## SUMMARY OF QUARTERLY RESULTS

A range of factors impact quarterly variances. The main factors affecting quarterly variances in interest revenue are completion of new investment transactions and loan repayments in a quarter. Major factors affecting quarterly variances in fees and other income include new investment transactions, amendments to investment agreements, and loan prepayments completed in a quarter. Factors affecting net gains (losses) on investments, including both realized and unrealized gains (losses), include changes in the fair value of loan investments carried at FVTPL caused by variations in benchmark interest rates and/or the credit status of portfolio companies as well as variations in market prices for publicly traded equity securities and estimated fair value of other equity securities held in the portfolio. Changes in Crown's percentage ownership interest in a fund due to additional subscriptions from Crown and/or additional subscriptions or redemptions from non-controlling interests impact total comprehensive income, net of non-controlling interests.

The following table provides selected quarterly information about the Corporation's financial condition and performance for the most recent eight quarters.

FOR THE PERIODS ENDED (THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue:								
Interest revenue.....	\$ 7,030	\$ 7,545	\$ 5,714	\$ 7,963	\$ 7,585	\$ 7,170	\$ 6,274	\$ 5,563
Fees and other income.....	711	528	806	1,576	1,497	208	1,636	199
Net gain (loss) on investments.....	395	(1,990)	4,436	(13,509)	1,326	542	1,124	(458)
Network services revenue.....	2,117	1,885	-	-	-	-	-	-
Total revenue.....	10,253	7,968	10,956	(3,970)	10,408	7,920	9,034	5,304
Net income (loss) attributable to Shareholders	1,065	460	2,254	(3,988)	2,373	1,808	1,970	900
Adjusted Funds from Operations <sup>2</sup> .....	3,390	(536)	1,766	681	3,908	3,154	3,619	2,517
Total assets.....	299,653	276,519	265,709	263,607	275,921	288,176	277,115	225,159
Total equity.....	97,478	98,158	99,987	99,301	104,892	103,896	104,314	103,166
Per share:								
- Net income (loss) to Shareholders - diluted	0.11	\$ 0.05	\$ 0.23	\$ (0.41)	\$ 0.24	\$ 0.19	\$ 0.20	\$ 0.09
- Net income (loss) to Shareholders - basic	0.11	0.05	0.23	(0.41)	0.25	0.19	0.21	0.09
- Total equity per share - basic	10.38	10.38	10.43	10.33	10.91	10.79	11.03	10.88

1. The amounts for periods prior to Q1 2019 have not been restated to reflect the adoption of IFRS 16 effective January 1, 2019, which was applied on a retrospective basis, and are therefore not comparable to amounts for Q1 2019 and subsequent periods which were restated.

2. For a reconciliation of earnings before income taxes to Adjusted Funds from Operations, refer to *Glossary of Terms - Non-IFRS Measures*.

### Review of Q4 2019 Results

In the fourth quarter of 2019, net income attributable to Shareholders totaled \$1.1 million compared with \$0.5 million in Q3 2019 and \$2.4 million in Q4 2018. Key factors that influenced our Q4 2019 results include the following:

- Interest revenue of \$7.0 million decreased by \$0.5 million compared with the prior period primarily due to the inclusion in Q3 2019 of \$1.3 million of bonus interest in relation to the Canadian Helicopters loan prepayment, which was partially offset by an increase in the average level of interest-yielding investments following additional advances made to Rokstad Power in the quarter.
- Fees and other income increased compared with Q3 2019 mainly due to the inclusion of fees recognized in relation to new investment in loan investments carried at FVTPL.
- The net gain on investments of \$0.4 million was comprised of a \$1.4 million unrealized gain recognized in relation to the restructuring of a loan measured at amortized cost, an aggregate net unrealized loss of \$2.4 million recognized in relation to equity-related investments and an aggregate net unrealized gain of \$1.4 million recognized in relation to other investments carried at FVTPL.

- Network services revenue of \$2.1 million increased by \$0.2 million compared with Q3 2019 due to a full quarter of contribution following the acquisition of WireIE in the prior quarter.
- Net income in Q4 2019 includes a net loss of \$0.3 million in relation to the operations of WireIE, including related depreciation expense of \$0.7 million.
- Salary expense increased compared with recent quarters to \$1.7 million due to a larger accrual in respect of annual staff bonuses.
- The increase in the provision for credit losses to \$0.5 million compared with an aggregate of \$0.1 million over the previous three quarters relates primarily to an increase in credit risk within the investment portfolio, and also includes an amount in relation to the accounts receivable of WireIE.
- An aggregate impairment charge of \$0.3 million was recognized in relation to certain distributed power and network assets, and a revision to the gain recognized upon the acquisition of WireIE resulted in a gain of \$0.3 million recognized in the fourth quarter.
- The increase in total assets compared with the prior quarter is due primarily to an increase in the size of the Rokstad loan investment, and the decrease in total equity is primarily the result of dividends declared in the period.

### **Review of Prior Quarterly Results**

Over the previous seven completed quarters, the factors discussed below caused variations in revenues and net income (loss) attributable to Shareholders on a quarterly basis:

- In the third quarter of 2019, the acquisition of WireIE effective July 12, 2019 introduced network services revenue to our total revenue and resulted in a \$(1.0) million net operating loss before income taxes, inclusive of depreciation expense of \$1.2 million, as well as a loss on acquisition of \$(0.2) million, a realized gain of \$0.3 million and a \$0.1 million recovery of expected credit loss in relation to our investment in the pre-existing loan to WireIE. Repayment of the Canadian Helicopters loan resulted in an unrealized gain reversal of \$(1.2) million that was more than offset by related interest income recognition of \$1.3 million plus additional fee income. Net of this \$1.3 million item, interest revenue was negatively impacted by a lower average level of interest-yielding investments held by Crown Partners Fund.
- In the second quarter of 2019, interest revenue was negatively impacted by a lower average level of interest-yielding investments held by Crown Partners Fund following multiple loan repayments in the first quarter of 2019. Net investment gains were relatively high including both a \$4.0 million unrealized loss reversal in relation to recoveries achieved in respect of the Solo investment and a \$1.3 million unrealized gain recognized in anticipation of the Canadian Helicopters loan prepayment. General and administrative expenses were higher than usual due to legal fees related to the Solo recovery process and to an increase in GST/HST expense related to an assessment in respect of which we filed a formal notice of objection.
- In the first quarter of 2019 we recognized a \$15.6 million unrealized loss in respect of the Solo loan investment, which was partially offset by an aggregate unrealized gain of \$1.0 million recognized in relation to the restructuring of three loans carried at amortized cost. The early repayment of the BGO and Baylin loan investments contributed to above-average levels of interest revenue and fees and other income.
- In the fourth quarter of 2018, revenues, benefited from the early repayment of the Marquee loan investment, which generated prepayment fees and resulted in a reversal of a related unrealized loss. The net investment gain in the quarter also included an unrealized gain recognized in relation to Crown Partners Fund's equity investment in RBee, which was partially offset by a net unrealized loss recognized in relation to other equity-related investments.

- In the third quarter of 2018, interest revenue increased compared to the prior quarter due to a higher average level of interest-yielding investments following a significant level of new loan origination in the second quarter. Finance costs increased compared with the second quarter due mainly to the introduction of costs in relation to the Convertible Debenture issuance in June 2018.
- In the second quarter of 2018, new investments were made in Data Communications, Persta, WireIE and Mill Street, resulting in sizeable increases in both total assets and fees and other income. Repayment of the Petrowest loan also contributed to fees and other income in the quarter.
- In the first quarter of 2018, interest revenue increased year-over-year due to a higher average level of interest-yielding investments held by consolidated investment funds. Fee and other income was relatively low, as fees earned in relation to the Baylin loan origination in the quarter were deferred in accordance with IFRS 9. A net unrealized loss of \$(0.5) million negatively impacted earnings attributable to Shareholders.



## RELATED PARTY TRANSACTIONS

The Corporation earns investment management fees pursuant to management agreements. The base annual management fee for Crown Partners Fund is equal to 1.75% of invested capital, as defined in the limited partnership agreement for this fund, less any capital distributions and realized losses. The base annual management fee for Crown Power Fund is equal to 1.0% of total capital, as defined in the limited partnership agreement for this fund, which includes the sum of invested capital net of capital distributions and realized losses plus funded debt that has been invested into qualifying investments, also as defined in the limited partnership agreement. Crown provides certain limited partners with management fee discounts and Crown may voluntarily reduce its management fees such that the effective annualized management fee rates earned by Crown from these two funds are lower than the base rates specified above.

On consolidation, 100% of management fees earned from Crown Partners Fund and Crown Power Fund are eliminated against the management fees expensed by these funds.

The non-controlling interests of Crown Partners Fund incur approximately 63.0% of the management fees while Crown effectively pays itself for the remaining 37.0% as a result of its ownership interests.

Crown has voluntarily waived management fees in respect of Crown Power Fund through its early development phase and charged no management fees to this fund in 2019.

Pursuant to a limited partnership agreement, Crown, for services provided, is also entitled to earn management fees from NCOF LP. Effective October 31, 2018, the Corporation elected to stop accruing for incremental management fees from NCOF LP and as a result recognized management fees in relation to NCOF LP of \$nil in 2019 (2018 - \$0.1 million). As at December 31, 2019, accounts receivable included \$0.5 million due from NCOF LP in respect of accrued management fees (2018 - \$0.5 million).

These transactions between Crown and its managed investment funds are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

As at December 31, 2019, there was an amount payable to Crown Power Fund by Crown of \$1.4 million that relates to a reimbursement of advances made by Crown Power Fund to a formerly affiliated operating partner that were subsequently determined to be unrecoverable.

The table below provides additional details of the transaction fees, management fees and performance fees included in net income and comprehensive income attributable to Shareholders arising from non-controlling interests as a result of Crown's roles as a fund manager and as a general partner and the financial statement captions through which these fees are reflected in net income and comprehensive income attributable to Shareholders.

FOR THE YEARS ENDED DEC. 31  
(THOUSANDS)

	2019	2018
Management fees to Crown by non-controlling interests in Crown Partners Fund <sup>1,2</sup> .....	\$ 1,636	\$ 1,687
Management fees to Crown by non-controlling interests in Crown Partners Fund - finance fees <sup>2,3</sup> .....	435	613
Management fees to Crown by non-controlling interests in Crown Power Fund <sup>1,2</sup> .....	-	-
Performance fee accrual to Crown by non-controlling interests in Crown Partners Fund <sup>2,4</sup> .....	(735)	1,260
Management fees charged to NCOF LP <sup>5</sup> .....	-	97
	<u>\$ 1,336</u>	<u>\$ 3,657</u>

1. Monthly management fees charged by Crown to its managed funds in its role as investment manager represent a revenue to Crown and an expense to each of Crown Partners Fund and Crown Power Fund on a non-consolidated basis and are eliminated upon consolidation. The amounts shown here represent the portion of such management fees attributable to Shareholders (i.e., excluding the amount of such fees that Crown, as an investor in these funds, is effectively paying itself as manager).

2. While fees earned by Crown in relation to its consolidated investment funds are eliminated upon consolidation and are therefore not included in revenue recognized by Crown, these amounts attributable to Shareholders are included, on an after-tax basis, in net income and comprehensive income attributable to Shareholders. This is achieved through the allocation of net income attributable to each of Shareholders and non-controlling interests.

3. In addition to monthly fees, in its role as investment manager Crown is entitled to half of transaction fees received by Crown Partners Fund in respect of new investment to a maximum of 1% of the investment value.

4. Crown Partners Fund, on a non-consolidated basis, maintains an accrual in relation to performance fees attributable to Crown in its role as general partner of the fund. These fees are eliminated upon consolidation. The amounts shown here represent the portion of such performance fees attributable to Shareholders (i.e., excluding the amount of such fees that Crown, as an investor in this fund, is effectively paying itself as general partner).

5. Management fees charged to NCOF LP are recognized in revenue as a component of fees and other income.

### ***Share Purchase Loans***

The Corporation has an Executive Share Purchase Plan (“**Share Purchase Plan**”) whereby the Board can approve loans to senior management (“**Share Purchase Plan Participants**”) for the purpose of purchasing the Corporation’s Common Shares in the open market. Loans in relation to 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 the Share Purchase Plan Participants in repayment of interest and principal on these loans: all dividend distributions on the Common Shares, all annual performance incentive plan payments to Share Purchase Plan Participants in excess of target bonus payouts, and all proceeds from the sale of the Common Shares.

As at December 31, 2019, \$0.2 million of these loans were outstanding to the Corporation (December 31, 2018 – \$0.6 million), including accrued interest. The loans under the Share Purchase Plan bear interest at Prime (3.95% as at December 31, 2019), are repayable in full within 90 days following the date on which the Share Purchase Plan Participant ceases to be employed by the Corporation and are personally guaranteed by Share Purchase Plan Participants.

The Corporation has guaranteed the repayment of loans advanced to Share Purchase Plan Participants by a third-party financial institution pursuant to the Share Purchase Plan which totaled \$2.5 million as at December 31, 2019, and which are secured by Common Shares owned by Share Purchase Plan Participants with a value of \$3.0 million as at December 31, 2019.

## PART 3 – REVIEW OF OPERATIONS

The following section contains a review of our operations, including separate discussions for each of the three distinct markets in which we operate: alternative corporate finance, distributed power and telecommunications infrastructure (which we refer to as Network Services).

For financial reporting purposes, our operations are organized into two reportable segments:

- **Specialty Finance**, involving the origination and management of, and investment in, capital pools comprised of Special Situations Financing, Long-term Financing and Distributed Power investments. In addition to reflecting revenues, expenses and net assets in relation to Crown's investment activity in these markets, the specialty finance reportable segment also includes revenues earned by Crown in its capacity as investment manager, which are eliminated on consolidation, and all corporate-level expenses other than those incurred by the Network Services segment.
- **Network Services**, involving the provision of network services by WireIE in relation to the deployment and management of carrier-grade data networks.

For the year ended December 31, 2019, total consolidated revenues of the Corporation of \$25.2 million were comprised of \$21.2 million of revenue attributable to the Specialty Finance segment (net of \$0.5 million of inter-segment revenues) and \$4.0 million to the Network Services segment. Of total consolidated revenues, network services revenue relates exclusively to the Network Services segment and all other revenues relate exclusively to the Specialty Finance segment. For a discussion of revenues by type, refer to *Part 2 – Review of Consolidated Financial Results*. For more information regarding the performance of our reportable segments, refer to *Note 16 – Segment information* in our consolidated financial statements.

In the review below, we discuss our operations in each of the Alternative Corporate Financing (i.e., comprised of both Special Situations Financing and Long-term Financing) and Distributed Power markets separately, noting that these are both components of our Specialty Finance reportable segment and are not themselves distinct reportable segments. Although our strategy with respect to each of these markets is similar, involving the management of and co-investment alongside third-party non-controlling interests in capital pools, the type of assets and stage of development of the related investment funds are different enough to warrant separate discussion, in the opinion of management.

### ALTERNATIVE CORPORATE FINANCING

#### 2019 Operating Highlights

- In February 2019, Crown Partners Fund entered into an agreement for a \$25.0 million senior secured revolving credit facility with ATB Financial that matures on May 31, 2022 and is subject to extension annually. In December 2019, the size of this credit facility was increased to \$50 million and the maturity date was extended to May 31, 2023. The establishment of this credit facility provided Crown Partners Fund with additional capital availability, provided it with the opportunity to enhance returns through the introduction of financial leverage, and improved liquidity, enabling it to reduce the frequency of capital contributions and distributions involving its limited partner investors.
- In March 2019, Crown Partners Fund advanced an additional \$5 million to Triple Five, increasing the size of this loan to \$20 million, and extended the term of this investment by six months.
- In March 2019, we announced the full repayment by BGO of its special situations loan to Crown Partners Fund, including the loan principal value of \$15 million plus interest, a prepayment fee and other related payments.

- In March 2019, Crown Partners Fund and two of its institutional limited partners received the full repayment of their \$33 million special situations loan to Baylin (Crown Partners Fund share: \$30 million), including principal, interest and a prepayment fee.
- In March 2019, Crown Partners Fund recognized an unrealized loss of \$15.6 million in relation to its investment in Solo, of which a partial recovery was subsequently achieved through a receivership process, resulting in the recognition of a realized loss of \$11.1 million in the third quarter of 2019. Subsequent to December 31, 2019, Crown Partners Fund received an additional \$0.3 million in respect of the Solo investment that will be included in revenues in the first quarter of 2020.
- In April 2019, Crown Partners Fund provided a \$25 million, 60-month term loan to Rokstad Power featuring a fixed interest rate and an equity participation right based on the growth in Rokstad Power's equity value, of which \$5.0 million was advanced in April 2019, \$10.5 million was advanced in May 2019 and \$9.5 million was advanced in July 2019. In November 2019, the size of this term loan was increased to \$50 million, of which \$5 million was syndicated to two limited partners of Crown Partners Fund and for which the start date of its 60-month term was reset. The bonus feature associated with this loan was also revised through the grant of phantom equity in Rokstad Power in replacement of the previously issued equity participation right. Crown Partners Fund also provided a \$10 million, six-month bridge loan to Rokstad Power in August 2019 of which \$5 million was repaid in November 2019 coincident with the increase in the size of the term loan.
- In July 2019, Canadian Helicopters repaid its special situations loan to Crown Partners Fund, including the loan principal value of \$8 million plus interest, a prepayment fee and other related payments.
- In August 2019, Crown Partners Fund announced a \$7 million increase to its loan facility to Data Communications, bringing its total investment in Data Communications to \$19 million.
- In October 2019, Crown Partners Fund advanced an additional \$5.0 million to Touchstone, representing an increase in the size of its existing term loan to Touchstone to \$20.0 million, and amended its royalty agreement to provide Crown Partners Fund with a 1.33% pro rata share of Touchstone's gross revenue from production (vs. 1.0% previously).
- In October 2019, Crown Partners Fund advanced an additional \$7.0 million to Triple Five, representing an increase in the size of its existing term loan to Triple Five to \$27.0 million, and amended its royalty agreement to provide Crown Partners Fund with a 6.0% pro rata share of gross revenue from the production of future Triple Five wells (vs. 3.0% with respect to production from existing wells).
- Subsequent to December 31, 2019, VIQ Solutions drew the final \$6.9 million available to it in respect of its term loan facility established in 2018, bringing aggregate advances in respect of this facility to \$15.0 million.

## **Outlook**

Management continues to place a high priority on new originations of Special Situations Financing investments and on securing additional third-party funding commitments to help finance additional investment.

We intend to continue focusing our corporate investment activity primarily in the form of co-investment in managed funds from which we also receive fees in our role as manager, and/or in providing seed capital to new capital pools that we intend to develop into managed funds inclusive of capital contributions from non-controlling interests. Accordingly, we are currently placing less emphasis on sourcing new Long-term Financing investments and expect that any new investments of this type will be made by managed funds that are at least partially capitalized by non-controlling interests.

Market conditions for deploying capital in Crown's Special Situations Financing market segment remained softer than usual in 2019 due to a heightened level of competition from traditional finance providers, which has resulted in a contraction in the pipeline of potential transactions compared with previous years. Compared with previous quarters

in 2019, the aggressive credit cycle appeared to show a weakening trend in the fourth quarter of 2019. We believe the market instability caused by the COVID-19 pandemic will result in a further weakening of the credit cycle resulting in a net increase in investment opportunities in Special Situations Financing transactions, and management expects continued improvement and incremental net investment in the first half of 2020.

We are actively monitoring the impact of the COVID-19 pandemic and the related economic impacts on the health of our portfolio companies. In addition, there is increased volatility in global oil markets, however Crown's energy clients have substantial natural gas exposure and this is expected to provide stability to these companies. It is not clear at this time the extent to which our diversified portfolio companies will be impacted by the economic volatility, but management presently believes that the impacts will not materially impair their ability to make payments on their debt obligations.

## Investment Portfolio

At December 31, 2019, Crown held ownership interests in 13 loans.

Borrower	Loan Principal Amount Outstanding at December 31, 2018 <sup>(1)</sup>	Loan Principal Amount Outstanding at December 31, 2019 <sup>(1)</sup>	Attributable at December 31, 2019 to:		Status
			Shareholders	Non-controlling interests	
<b>Special Situations Financing transactions</b>					
BGO	\$15,000,000	N/A	N/A	N/A	N/A
Touchstone <sup>2</sup>	\$15,000,000	\$20,000,000	\$7,753,056	\$12,246,944	Current
Source <sup>3</sup>	\$12,428,000	\$12,428,000	\$4,817,749	\$7,610,251	Current
Solo <sup>3</sup>	\$15,000,000	N/A	N/A	N/A	N/A
Ferus <sup>2</sup>	\$25,000,000	\$25,000,000	\$9,691,320	\$15,308,680	Current
RBee <sup>2, 4</sup>	\$17,414,343	\$17,414,343	\$6,750,719	\$10,663,624	Current
Active <sup>3</sup>	\$7,000,000	\$7,000,000	\$2,713,570	\$4,286,430	Current
Canadian Helicopters	\$8,000,000	N/A	N/A	N/A	N/A
Baylin <sup>5</sup>	\$30,000,000	N/A	N/A	N/A	N/A
Data Communications <sup>2</sup>	\$12,000,000	\$19,000,000	\$7,365,403	\$11,634,597	Current
Persta <sup>2, 6</sup>	\$20,000,000	\$23,578,601	\$9,140,311	\$14,438,290	Current <sup>9</sup>
Triple Five <sup>2</sup>	\$15,000,000	\$27,000,000	\$10,466,626	\$16,533,374	Current
VIQ Solutions <sup>2</sup>	\$8,935,000	\$8,935,000	\$3,463,678	\$5,471,322	Current
Rokstad Power <sup>3, 7</sup>	N/A	\$45,000,000	\$17,444,376	\$27,555,624	Current
Rokstad Power - Bridge <sup>2</sup>	N/A	\$5,000,000	\$1,938,264	\$3,061,736	Current
<b>Long-Term Financing transactions</b>					
PenEquity <sup>2</sup>	\$25,000,000	\$25,000,000	\$25,000,000	Nil	Arrears <sup>10</sup>
Mill Street <sup>3</sup>	\$10,000,000	\$10,000,000	\$10,000,000	Nil	Current
WireIE <sup>8</sup>	\$6,492,758	N/A	N/A	N/A	N/A

Notes: (1) Loan principal amounts represent the Corporation's interest in the par value of each loan. For all loans, only the amounts attributable to Shareholders and non-controlling interests are included in the Corporation's December 31, 2019 consolidated year-end financial statements. The pro rata portions held by co-investors, if any, are excluded. (2) As at December 31, 2019, the loan component of this investment is carried at amortized cost. (3) As at December 31, 2019, the loan component of this investment is carried at FVTPL. (4) The total size of the RBee loan as at December 31, 2019 was \$18.8 million, of which \$1.4 million was held by a third party. (5) The total size of the Baylin loan was \$33 million of which \$3 million was syndicated in equal parts to two third parties. (6) Loan principal outstanding in respect to the Persta loan includes capitalized fees and interest totaling \$3.6 million as at December 31, 2019. (7) The total size of the Rokstad Power term loan as at December 31, 2019 was \$50.0 million, of which \$5.0 million was effectively held by third parties. (8) The loan to WireIE was effectively terminated when the Corporation acquired WireIE on July 12, 2019. (9) In accordance with loan amendments agreed to by Crown Partners Fund, as at December 31, 2019 all or a portion of interest payments in relation to this investment are being added to loan principal as they accrue. (10) As at December 31, 2019, accrued interest receivable of \$4.7 million in relation to this loan was included in accounts receivable.

In accordance with IFRS 9, the Corporation measures some of its debt investments at amortized cost and others at FVTPL. Crown's business model generally involves holding debt investments with the objective of collecting contractual cash flows to maturity rather than holding to sell. The Corporation is therefore required to assess the contractual terms of the cash flows to determine appropriate classification and measurement of its debt investments. Debt investments that give rise to cash flows that are solely payments of principal and interest are carried at amortized cost. Debt investments that give rise to cash flows that are other than solely payments of principal and interest (e.g., debt investments with contractual bonus interest payments) are carried at FVTPL. The current classification of each debt investment in the Corporation's investment portfolio is indicated in the above table.

In addition to the above loans, at December 31, 2019, Crown Partners Fund held ownership interests in 450,000 Medicare common share purchase warrants, 116,059 Source common shares, 4,400,000 Prairie Provident common shares, 53,192 VIQ Solutions common shares, 450,000 VIQ Solutions common share purchase warrants, 620,456 Baylin common share purchase warrants, 1,510,000 Data Communications common share purchase warrants, 8,000,000 Persta common share purchase warrants, warrants to acquire common shares of Ferus at nominal cost, a 46.3% common equity stake in RBee, a royalty agreement with a maturity date of November 23, 2023 entitling it to payment of 1.33% of Touchstone's gross revenue from production, and a royalty agreement with a maturity date of March 12, 2022 entitling it to payment of 6.0% of Triple Five's gross revenue from production in relation to wells drilled after October 31, 2019 and of 3% in relation to gross revenue from its other production. In addition to these investments owned by Crown Partners Fund, the Corporation also owned 53,191 VIQ Solutions common shares.

## Loan Risk Rating

Crown monitors the performance and health of each borrower as well as the overall performance and health of the portfolio. As part of this process, Crown utilizes a proprietary credit evaluation model to ascribe a risk rating to each loan Crown manages. As outlined in the table below, the credit evaluation model reviews five primary categories (i.e. financial, business, industry, security and marketability) and over fifty sub-categories (e.g. profitability, leverage, liquidity, management, customers, operations, employees, suppliers, competitors, business cycle, asset coverage, condition of assets, etc.). A point value and weighting is assigned to each sub-category and an overall point score is determined. A risk rating of 1.0 is the best possible rating and a 5.0 is the worst possible rating. The risk rating is determined during the initial underwriting process and is updated quarterly.

Financial	Business	Industry	Security	Marketability
<b>Profitability</b> <ul style="list-style-type: none"> <li>• EBITDA (\$)</li> <li>• EBITDA (%)</li> <li>• EBITDA Growth (%)</li> <li>• Gross Margin (%)</li> <li>• Return on Capital (%)</li> </ul> <b>Leverage</b> <ul style="list-style-type: none"> <li>• Debt/EBITDA</li> <li>• Debt/Capital</li> <li>• Debt/EV</li> </ul> <b>Liquidity</b> <ul style="list-style-type: none"> <li>• Current Ratio</li> <li>• DSCR (EBITDA/P+I)</li> <li>• EBITDA interest coverage</li> <li>• Average Days A/P</li> <li>• Average Days A/R</li> <li>• Cash Coverage</li> </ul> <b>Size</b> <ul style="list-style-type: none"> <li>• Sales (\$)</li> <li>• Sales Growth (%)</li> <li>• Tangible Assets (\$)</li> <li>• Enterprise Value (\$)</li> </ul>	<b>Management</b> <ul style="list-style-type: none"> <li>• Experience in industry</li> <li>• Competence</li> <li>• Investment</li> </ul> <b>Customers</b> <ul style="list-style-type: none"> <li>• Concentration</li> <li>• Reputation/Financial Strength</li> <li>• Stability</li> <li>• Dependence</li> </ul> <b>Operations</b> <ul style="list-style-type: none"> <li>• Plant Quality</li> <li>• Process Flow</li> <li>• Scalability</li> <li>• Capacity</li> </ul> <b>Employees</b> <ul style="list-style-type: none"> <li>• Turnover</li> <li>• Relations</li> <li>• Wage Level</li> <li>• Pool of Labour</li> </ul> <b>Suppliers</b> <ul style="list-style-type: none"> <li>• Diversification</li> <li>• Pricing Power</li> <li>• Reliability</li> </ul> <b>Shareholders</b> <ul style="list-style-type: none"> <li>• Alignment of Interests</li> <li>• Financial Capability</li> <li>• Stability</li> </ul>	<b>Competitors</b>  <b>Business Cycle</b>  <b>History of Profitability</b>  <b>International Trade</b>  <b>Regulatory Restrictions</b>	<b>% of Security Coverage</b>  <b>Assets</b> <ul style="list-style-type: none"> <li>• Condition</li> <li>• Obsolescence</li> <li>• Specialization</li> </ul> <b>Dependence on Unsecured Creditors</b>	<b>Business Investment</b>

The risk rating assesses the overall risk of a loan. Risk encompasses both the potential incidence of default as well as the potential severity of loss relative to the amount invested if a default were to occur. An increasing risk rating implies that one or both of incidence and severity are increasing. A decreasing risk rating implies that one or both of incidence and severity are decreasing. There may also be situations where a risk rating is stable but incidence and severity are moving in different directions.

Similar to a financial ratio, the risk rating provides both a point-specific indication of the risk level of a loan as well as the trend of the risk level over a period of time. Crown's strategy is to provide loans to successful, cash flow-generating businesses. At the time of making a new loan investment, Crown generally expects the risk rating of the loan to improve over time as the borrower increases in value and pays down debt.



The following table sets forth the risk ratings assigned to each loan comprising the current loan portfolio as at the end of each quarter for the past eight quarters:

Loan Risk Ratings								
	December 31 2019	September 30 2019	June 30 2019	March 31 2019	December 31 2018	September 30 2018	June 30 2018	March 31 2018
<b>Special Situations Financing:</b>								
Touchstone	1.92	2.03	2.03	2.07	2.07	2.09	2.28	2.61
Source	2.54	2.48	2.36	2.26	2.24	2.14	2.14	2.22
Ferus	3.27	3.27	3.02	2.96	2.93	2.86	2.92	2.86
RBee	3.05	2.82	2.69	2.59	2.69	2.79	2.68	2.68
Active	2.35	2.36	2.44	2.44	2.39	2.39	2.36	2.47
Data Communications	3.45	3.30	3.12	3.08	3.07	3.01	3.07	n/a
Persta	3.38	3.38	3.58	3.58	3.25	2.91	2.87	n/a
Triple Five	2.48	2.52	2.69	2.63	2.66	2.47	2.47	n/a
VIQ Solutions	2.52	2.52	2.47	2.42	2.27	n/a	n/a	n/a
Rokstad Power	2.69	2.69	2.74	n/a	n/a	n/a	n/a	n/a
<b>Long-Term Financing:</b>								
PenEquity	2.98	2.98	2.98	2.97	2.88	2.77	2.53	2.54
Mill Street	2.82	2.82	2.82	2.82	2.61	2.61	2.51	n/a

**Note:** A risk rating of 1.0 is the best possible rating and a 5.0 is the worst possible rating.

## Portfolio Company Updates

The following tables set forth certain summary information in respect of loans held by Crown as at December 31, 2019. The information contained in the rows entitled “Business Description” has been developed from information provided by the applicable borrower. See “Forward-Looking Statements”, “Market and Industry Data” and “Risk Factors”.

### *Special Situations Financing*

Touchstone Exploration Inc. (TSX: TXP)			
<b>Business Description:</b>	Headquartered in Calgary, Alberta, Touchstone is engaged in the exploration, development, and production of petroleum and natural gas. Touchstone's primary focus is onshore oil production in the Republic of Trinidad and Tobago, where it has interests in approximately 90,000 gross acres of exploration and development rights.		
<b>Industry:</b>	Oil and Gas	<b>Term:</b>	84 months (extended from 60)
<b>Investment Date:</b>	November 23, 2016	<b>Interest Rate:</b>	8%
<b>Current Capital Invested:</b>	\$20 million (original investment \$15 million)	<b>Bonus/Participation:</b>	Royalty of 1.33% of gross revenue from production until November 23, 2023
<b>Principal Repayment:</b>	\$1.1 million per quarter commencing January 1, 2021; residual is payable at maturity		

Source Energy Services Canada (TSX: SHLE)			
<b>Business Description:</b>	Headquartered in Calgary, Alberta, Source is the leading provider of frac sand to the Western Canadian Sedimentary Basin. Source is vertically integrated with operations spanning the entire production and logistics chain, including the mining and processing of Northern White sand in Wisconsin, bulk rail and storage involving multiple transload terminals in Canada and the United States, and "last mile" logistic solutions including material handling services at the wellsite.		
<b>Industry:</b>	Energy Services	<b>Term:</b>	60 months
<b>Investment Date:</b>	December 8, 2016	<b>Interest Rate:</b>	10.5%
<b>Current Capital Invested:</b>	\$12.4 million of Senior Secured First Lien Notes (original investment \$15 million)	<b>Bonus/Participation:</b>	116,059 common shares
<b>Principal Repayment:</b>	Single payment at maturity		
Ferus Inc.			
<b>Business Description:</b>	Headquartered in Calgary, Alberta, Ferus is the leading provider of industrial gases to the energy sector in the Western Canadian Sedimentary Basin. As an integrated supplier of nitrogen and carbon dioxide for the energized fracturing industry, Ferus owns and operates numerous production plants, tractor-trailer units, and fixed and portable storage units. Ferus' logistics fleet is designed to meet the demanding off-road requirements of the oil and gas industry. Energized hydraulic fracturing involves the use of cryogenic products to increase energy content and reduce water use in well fracturing, resulting in superior hydrocarbon recovery, reduced chemical and water requirements and decreased water disposal costs.		
<b>Industry:</b>	Energy Services	<b>Term:</b>	60 months
<b>Investment Date:</b>	June 27, 2017	<b>Interest Rate:</b>	Not disclosed
<b>Current Capital Invested:</b>	\$25 million	<b>Bonus/Participation:</b>	Nominal cost share purchase warrants
<b>Principal Repayment:</b>	Single payment at maturity		
RBee Aggregate Consulting Ltd.			
<b>Business Description:</b>	Headquartered in Gibbons, Alberta, RBee has one of the largest mobile crushing fleets in Western Canada. With over 35 years of experience, previously operating as RBee Crushing, RBee offers its expertise to municipal and provincial governments, independent gravel pit owners and both private and public companies. RBee is 50%-owned by each of the management of RBee and a lending syndicate comprised of Crown Partners Fund (approximate interest in RBee of 46.3%) and a syndicate partner (approximate interest in RBee of 3.7%).		
<b>Industry:</b>	Industrial Services	<b>Term:</b>	Payable on demand
<b>Investment Date:</b>	November 1, 2017	<b>Interest Rate:</b>	Not disclosed
<b>Current Capital Invested:</b>	\$17.4 million	<b>Bonus/Participation:</b>	46.3% common equity interest
<b>Principal Repayment:</b>	Payable on demand		
Active Exhaust Corp.			
<b>Business Description:</b>	Headquartered in Toronto, Ontario, Active is a manufacturer of complete exhaust systems and components for major global original equipment manufacturers ("OEMs") operating in the off-road equipment sector. Active has a 180,000 square foot manufacturing facility in Toronto as well as manufacturing operations in China and India through majority-owned joint ventures. For over 50 years, Active has designed and manufactured industry leading exhaust systems, ranging from standard mufflers to custom-engineered exhaust and emission solutions to meet environmental demands. Active sells its products to leading OEMs in four primary categories: agriculture, commercial turf care, construction, and ATV/utility vehicles.		
<b>Industry:</b>	Manufacturing	<b>Term:</b>	66 months
<b>Investment Date:</b>	December 21, 2017	<b>Interest Rate:</b>	Not disclosed
<b>Current Capital Invested:</b>	\$7 million	<b>Bonus/Participation:</b>	Share of increase in enterprise value from date of loan to repayment
<b>Principal Repayment:</b>	Single payment at maturity		

Data Communications Management Corporation (TSX: DCM)			
<b>Business Description:</b>	Headquartered in Brampton, Ontario, Data Communications is the largest integrated business communications solutions provider in Canada, with clients in key verticals such as financial services, retail, healthcare, lottery and gaming, not-for-profit, and energy. Data Communications' core service offering includes commercial print services, labels and asset tracking, event tickets and gift cards, logistics and fulfillment, direct marketing, content and workflow management, data management and analytics, and regulatory communications.		
<b>Industry:</b>	Business Services	<b>Term:</b>	60 months
<b>Investment Date:</b>	May 8, 2018	<b>Interest Rate:</b>	10%
<b>Current Capital Invested:</b>	\$19 million (original investment \$12 million)	<b>Bonus/Participation:</b>	1,510,000 warrants
<b>Principal Repayment:</b>	Single payment at maturity		
Persta Resources Inc. (HKEX: stock code 3395)			
<b>Business Description:</b>	Persta is a Calgary, Alberta-based oil and gas exploration and development company focused on liquids-rich gas and light crude oil in Western Canada. Its three core areas comprise Alberta Foothills liquids-rich natural gas properties, Deep Basin Devonian natural gas properties and Peace River light oil properties. Persta was founded in 2005 and was one of the first oil and gas companies to target the Spirit River/Wilrich zones in the Alberta foothills.		
<b>Industry:</b>	Oil and Gas	<b>Term:</b>	60 months
<b>Investment Date:</b>	May 15, 2018	<b>Interest Rate:</b>	12%
<b>Current Capital Invested:</b>	\$20 million plus \$3.6 million of capitalized fees and interest	<b>Bonus/Participation:</b>	8,000,000 warrants
<b>Principal Repayment:</b>	Single payment at maturity		
Triple Five Intercontinental Group Ltd.			
<b>Business Description:</b>	Headquartered in Calgary, Alberta, Triple Five is engaged in acquiring interests in petroleum and natural gas rights, and the exploration, development, production and sale of petroleum and natural gas. Triple Five's core operation is located in Alberta's Suncild First Nation Reserve within the Deep Basin fairway in west central Alberta, where the Company has a 100% working interest in 20 contiguous sections of land (approximately 12,800 net acres). All of its production is from the Spirit River zone (Falher A and B). The area surrounding the Suncild First Nation is controlled by several high profile oil and gas companies including Bellatrix, Cenovus, TAQA, Peyto, Westbrick and Vermillion.		
<b>Industry:</b>	Oil and Gas	<b>Term:</b>	Approximately 42 months
<b>Investment Date:</b>	August 31, 2018	<b>Interest Rate:</b>	10.5%
<b>Current Capital Invested:</b>	\$27 million (original investment \$15 million)	<b>Bonus/Participation:</b>	Royalty of 3% of gross revenue from production (6% on wells drilled after October 31, 2019) until March 12, 2022
<b>Principal Repayment:</b>	\$0.725 million per month commencing September 1, 2020; residual is payable at maturity		
VIQ Solutions Inc. (TSXV: VQS)			
<b>Business Description:</b>	Headquartered in Mississauga, Ontario, VIQ Solutions is engaged in the transcription services industry with a leading global technology platform offering ultra-secure digital media capture, workflow management and analytics to customers in its key verticals of transcription, insurance, judicial, hearings, legal, healthcare and public safety. Its purpose-built solutions are used in over 25 countries with tens of thousands of users in government and private agencies.		
<b>Industry:</b>	Business Services	<b>Term:</b>	60 months
<b>Investment Date:</b>	November 28, 2018	<b>Interest Rate:</b>	10%
<b>Current Capital Invested:</b>	\$8.9 million (total commitment: \$15 million)	<b>Bonus/Participation:</b>	106,383 common shares and 450,000 warrants
<b>Principal Repayment:</b>	Single payment at maturity		

Rokstad Holdings Corporation			
<b>Business Description:</b>	Headquartered in Coquitlam, British Columbia, Rokstad is a privately held company that provides power line construction and maintenance services to customers across North America. Founded in 2008, Rokstad offers a full suite of power line services, including emergency and storm response, transmission and distribution line construction and maintenance and underground cable services. Rokstad is also a specialist in live line construction methods for distribution and transmission line projects. With operations throughout Canada and the United States, Rokstad has successfully grown from a mid-size contractor to one of the largest power line contractors in North America. The company's largest markets are British Columbia, California and Arizona.		
<b>Industry:</b>	Industrial Services	<b>Term:</b>	Term loan: Approximately 66 months Bridge loan: 6 months
<b>Investment Date:</b>	Term loan: April 26, 2019 Bridge loan: August 7, 2019	<b>Interest Rate:</b>	Not disclosed
<b>Current Capital Invested:</b>	Term loan: \$45 million Bridge loan: \$5 million	<b>Bonus/Participation:</b>	Phantom equity payout equal to a specified percentage of equity value upon exercise
<b>Principal Repayment:</b>	\$0.75 million per month commencing December 1, 2021; residual is payable at maturity		

### Long-Term Financing

PenEquity Realty Corporation			
<b>Business Description:</b>	Headquartered in Toronto, Ontario, PenEquity is a privately-owned property management and real estate development company, operating primarily in the retail sector with a focus on grocery-anchored retail plazas. Since its inception in 1984, PenEquity has completed over 20 development projects. PenEquity has established strong relationships with partners and key tenants and has been successful in attracting large, high-quality, financially-stable tenants. PenEquity currently has a portfolio of six development projects in its pipeline, which are primarily grocery-anchored community retail plazas. Two of the projects are in Barrie, with the others in Stoney Creek, Brampton, London and Kanata. PenEquity expects to develop and realize on these projects over the next five years.		
<b>Industry:</b>	Real Estate Development	<b>Term:</b>	120 months
<b>Investment Date:</b>	December 15, 2015	<b>Interest Rate:</b>	Not disclosed
<b>Current Capital Invested:</b>	\$25 million plus \$4.7 million of accrued interest	<b>Bonus/Participation:</b>	None
<b>Principal Repayment:</b>	\$2.5 million per year commencing December 31, 2021; residual is payable at maturity		
Mill Street & Co. Inc.			
<b>Business Description:</b>	Headquartered in Thornhill, Ontario, Mill Street is a diversified investment company that has majority ownership stakes in nine operating companies across three industry platforms: construction, commercial & home services, building supply, sales & distribution and financial services. Mill Street's core value proposition to an entrepreneur is to provide them with both a succession plan and liquidity by acquiring up to 100% of their business. Mill Street seeks to acquire controlling interests in operating companies and typically structures transactions that result in vendors retaining equity positions of approximately 20%, which serves to keep them engaged in their businesses post-acquisition and promotes successful transitions.		
<b>Industry:</b>	Diversified	<b>Term:</b>	120 months
<b>Investment Date:</b>	May 16, 2018	<b>Interest Rate:</b>	5-year Govt. of Canada yield plus 10% (12% minimum)
<b>Current Capital Invested:</b>	\$10 million	<b>Bonus/Participation:</b>	Share of increase in equity value from date of loan to repayment
<b>Principal Repayment:</b>	\$0.1 million per month commencing May 1, 2023; residual is payable at maturity		

## DISTRIBUTED POWER

### 2019 Operating Highlights

- In February 2019, Crown Power Fund completed a subsequent closing with subscriptions for an additional approximately 57,900 Units at \$1,000 per Unit, increasing the total capital committed to Crown Power Fund to approximately \$57.9 million. Crown, through its wholly-owned subsidiary CCFC, participated in this closing, resulting in CCFC holding a total of 25,000 Units representing a total capital commitment of \$25.0 million and an approximate 43.2% interest in Crown Power Fund (December 31, 2018 – 100%). Following this subscription, non-controlling interests held an aggregate interest in Crown Power Fund of approximately 56.8% and representing a total capital commitment of \$32.9 million, of which \$13.3 million was contributed at the subscription date.
- In the first quarter of 2019, Crown recorded a \$3.0 million bad debt expense in relation amounts owing from a former operating partner affiliated with Crown Power Fund, representing the gross amount of this receivable. This amount related to advances made by the Corporation that were used by the former operating partner to fund unauthorized operating expenses in the period prior to the subscription of limited partnership units by third-party investors in February 2019 (i.e., when Crown Power Fund was wholly owned by the Corporation.) Accordingly, this provision was incurred directly by the Corporation rather than by Crown Power Fund and was fully attributable to Shareholders. Of the \$3.0 million originally recognized as a bad debt expense, an aggregate recovery of \$0.5 million had been achieved as at December 31, 2019.
- During 2019, we established relationships with, and partial ownership interests in, three additional third-party operating partners engaged exclusively in sourcing, designing, constructing and operating distributed power projects on behalf of Crown Power Fund (“**Operating Partners**”). The arrangements with each Operating Partner involve the granting of non-controlling ownership interests in the Operating Partner to each of Crown and Crown Power Fund for nominal consideration. Through these minority ownership interests, we are entitled to our proportionate share of profits of the Operating Partners. We carry these equity investments at FVTPL at a value of \$nil as at December 31, 2019 (2018 - \$nil).
- During 2019, Crown Power Fund commenced construction on four new distributed power projects, increasing the total number of projects in development or in operation to nine, including one in operation, as at December 31, 2019 (2018 – five).
- In the fourth quarter of 2019, the first distributed power project developed by Crown Power Fund became operational and subject to a long-term lease carried at \$0.6 million as at December 31, 2019.

### Outlook

We remain focused on building out assets in Crown Power Fund and on securing additional third-party funding commitments to help finance additional investment. Management expects that 2020 will be a year of accelerated growth for Crown Power Fund. The pipeline of potential transactions in the Distributed Power market, including prospective projects already in the planning stage by Crown Power Fund, is vibrant and growing.

Management believes that the market opportunity continues to become more compelling for onsite power generation in each of Ontario and Alberta, our current geographic regions of focus. Crown Power Fund is also currently prospecting opportunities in Eastern Canada, where electricity prices are among the highest in Canada but where natural gas supply is relatively limited, and is investigating potential expansion into select U.S. markets.

We do not presently see any material financial impacts of the COVID-19 pandemic on the financial performance of our power generation assets or pipeline opportunities.

## NETWORK SERVICES

Crown participates in the Network Services market through its wholly owned subsidiary, WireIE.

### Acquisition of WireIE

On July 12, 2019, Crown acquired 100% of the common shares, voting interests and debt in WireIE, an Ontario-based broadband network operator specializing in the deployment and management of carrier-grade data networks across Canada and internationally to underserved communities. Prior to the acquisition, Crown and WireIE were parties to a long-term debt security contract under which Crown had invested \$7.6 million in accordance with an income-streaming funding structure.

In exchange for the common shares, voting interests and debt in WireIE, Crown transferred \$0.2 million in cash consideration and agreed to pay the selling debtholders additional consideration on an annual basis as a predefined percentage of cumulative EBITDA in relation to WireIE, in accordance with prescribed dollar thresholds starting in 2020 for a five-year period, and not to exceed a \$5.0 million aggregate amount. In respect of this additional consideration, Crown recognized \$0.3 million in contingent consideration, which represents its fair value at the date of acquisition, and which Crown has determined remains appropriate as at December 31, 2019.

At the date of acquisition, Crown recognized \$8.1 million of identifiable net assets measured at fair value, primarily related to network services contracts and network services equipment. As this was greater than the total consideration paid of \$8.0 million, we recognized a gain on acquisition of \$0.1 million.

The pre-existing long-term loan that Crown had made to WireIE was effectively terminated in connection with the acquisition and was deemed to have been settled at fair value, resulting in the recognition of both a realized gain on investment of \$0.3 million and a \$0.1 million recovery of expected credit loss.

For additional details, refer to *Note 15 – Acquisition of subsidiary* in the Corporation's consolidated financial statements.

### Outlook

Crown's strategy with regards to its investment in WireIE involves the creation of a capital pool that invests in high-quality, recurring network services revenue of WireIE and, potentially, of other network services companies. As the capital pool grows, Crown will seek to raise additional capital commitments from third-party investors to fund future asset growth. In addition to investment income earned from Crown's network services investments, we anticipate that we will earn fees in relation to our role as manager of this capital pool.

We do not presently see any material financial impacts of the COVID-19 pandemic on the financial performance of our network assets or pipeline opportunities.

## PART 4 – CAPITALIZATION AND LIQUIDITY

### CAPITALIZATION

We review the components of our capitalization in the following sections.

*Corporate Capitalization* – reflects our issued and outstanding Convertible Debentures and Common Shares and the amount of debt held by the Corporation excluding amounts in relation to its Crown Partners Fund, Crown Power Fund and WireIE subsidiaries. Corporate debt includes amounts drawn upon the Crown Credit Facility. At December 31, 2019, our corporate capitalization was \$132.6 million (December 31, 2018 - \$142.5 million).

*Consolidated Capitalization* – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements and is equal to total liabilities plus total equity in our consolidated statement of financial position. At December 31, 2019, consolidated capitalization increased compared with the prior year largely due to an increase in the borrowings of Crown Partners Fund following the establishment of the CCPF Credit Facility in February 2019, the issuance of promissory notes by Crown Partners Fund effective December 31, 2019 and the addition of liabilities, including lease obligations, in relation to the acquisition of WireIE effective July 12, 2019.

*Our Share of Capitalization*<sup>1</sup> – reflects our proportionate exposure of debt and equity balances in consolidated entities.

The following table presents our capitalization on a consolidated, corporate and our share basis:

AS AT DEC. 31 (THOUSANDS)	Ref.	Corporate		Consolidated		Our Share	
		2019	2018	2019	2018	2019	2018
Corporate borrowings.....	i	\$ 13,875	\$ 17,730	\$ 13,875	\$ 17,730	\$ 13,875	\$ 17,730
Subsidiary borrowings.....	ii	-	-	24,531	-	9,509	-
		13,875	17,730	38,406	17,730	23,385	17,730
Accounts payable and other liabilities.....		2,329	1,618	9,375	7,139	6,214	3,661
Lease obligations.....		403	-	4,324	-	4,324	-
Promissory notes payable.....		-	-	8,512	-	3,300	-
Convertible debentures - liability component.....	iii	18,562	18,222	18,562	18,222	18,562	18,222
Non-controlling interests.....		-	-	122,996	127,938	-	-
Equity							
Share capital.....		95,342	97,615	95,342	97,615	95,342	97,615
Convertible debentures - equity component.....	iii	483	483	483	483	483	483
Contributed surplus.....		1,087	1,397	1,087	1,397	1,087	1,397
Retained earnings.....		566	5,397	566	5,397	566	5,397
Total equity.....	iv	97,478	104,892	97,478	104,892	97,478	104,892
Total capitalization.....		\$132,647	\$142,463	\$299,653	\$275,921	\$153,263	\$144,506

#### i. Corporate Credit Facility

On December 30, 2016, Crown entered into an agreement for a \$35.0 million, 36-month, renewable senior secured revolving credit facility with ATB Financial and Business Development Bank of Canada which is intended to be used primarily to fund the Corporation's capital commitments to each of Crown Partners Fund, CCF IV Investment LP and Crown Power Fund and to fund investment in Long-Term Financings, including WireIE (the "**Crown Credit Facility**"). Effective February 5, 2019, the Corporation extended the maturity of the Crown Credit Facility to May

<sup>1</sup> See definition in Glossary of Terms beginning on page 53.

31, 2021. The balance outstanding on the Crown Credit Facility at December 31, 2019 of \$13.9 million is comprised of gross advances of \$14.3 million net of unamortized deferred financing costs of \$0.4 million.

## ii. Subsidiary Credit Facility

On February 5, 2019, Crown Partners Fund entered into an agreement for a \$25.0 million senior, secured, syndicated credit facility with ATB Financial as agent and a maturity date of May 31, 2022 that is subject to extension annually, and that is intended to be used primarily to fund investments in mid-market corporations (the “CCPF Credit Facility”). Effective December 17, 2019, the size of the CCPF Credit facility was increased to \$50 million and the maturity date was extended to May 31, 2023. The balance outstanding on the CCPF Credit Facility at December 31, 2019 of \$24.5 million is comprised of gross advances of \$25.0 million net of unamortized deferred financing costs of \$0.5 million.

We provide additional detail regarding our credit facilities in *Note 8 – Credit facilities* of the consolidated financial statements.

## iii. Convertible Debentures

On July 13, 2018, Crown issued \$20.0 million of convertible unsecured debentures that bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, with a maturity date of June 30, 2023 and a conversion price of \$13.70 per Common Share (the “Convertible Debentures”). The Convertible Debentures are direct, subordinated unsecured obligations of the Corporation, subordinated to the Credit Facility. Net of issuance costs, the Corporation received net proceeds of \$18.7 million from the issuance of the Convertible Debentures. We provide additional detail regarding the Convertible Debentures in *Note 9 – Convertible Debentures* of the consolidated financial statements.

## iv. Equity

We provide a continuity of each component of equity in the consolidated statements of changes of equity included in our consolidated financial statements.

### *Issued and Outstanding Shares*

Changes in the number of issued and outstanding Common Shares during the periods are as follows:

AS AT AND FOR THE PERIODS ENDED DEC. 31 (THOUSANDS)	2019	2018
Outstanding at beginning of period.....	9,617	9,510
Issued (repurchased)		
Repurchases.....	(236)	(130)
Share-based compensation.....	13	237
Outstanding at end of period.....	9,393	9,617
Unexercised options and other share-based plans <sup>1</sup> .....	115	138
Total diluted shares at end of period.....	9,508	9,755

1. Includes restricted share units, performance share units and in-the-money share options

In the twelve months ended December 31, 2019, the Corporation repurchased 236,372 Common Shares pursuant to our normal course issuer bid (“NCIB”) and issued 13,059 Common Shares to employees and directors as a result of vesting of restricted share units.

On April 10, 2018, the Corporation commenced an NCIB to purchase for cancellation during the next 12 months up to 300,000 Common Shares representing approximately 5.5% of the public float of Common Shares and approximately 3.2% of the issued and outstanding Common Shares. Under this NCIB program, which subsequently



expired on April 9, 2019, Crown repurchased and cancelled 102,583 Common Shares at an average cost of \$10.06 per Common Share.

On April 10, 2019, the Corporation commenced an NCIB to purchase for cancellation during the next 12 months up to 300,000 Common Shares representing approximately 5.3% of the public float of Common Shares and approximately 3.1% of the issued and outstanding Common Shares. Under this NCIB program, Crown repurchased and cancelled 214,111 Common Shares in the twelve months ended December 31, 2019 at an average cost of \$7.42 per Common Share.

The total number of Common Shares outstanding at December 31, 2019 was 9,393,242 (December 31, 2018 – 9,616,555; March 12, 2020 – 9,430,712).

## **LIQUIDITY**

### **Liquidity and Capital Resources**

Considering the Corporation's working capital of \$4.4 million, the \$82.2 million of committed capital available to Crown Partners Fund and Crown Power Fund from parties other than Crown, and the undrawn balances of the credit facilities of each of Crown and Crown Partners Fund totaling \$45.7 million, at December 31, 2019, the Corporation had access to up to approximately \$132.3 million to fund additional investments.

The undrawn balance of the CCPF Credit Facility and the balance of uncalled committed capital available to Crown Partners Fund may only be used to support the financing requirements of Crown Partners Fund, and the uncalled committed capital available to Crown Power Fund may only be used to support the financing requirements of Crown Power Fund.

The Corporation defines working capital as the sum of cash and cash equivalents, accounts receivable, income taxes recoverable and prepaid expenses and deposits less the sum of accounts payable and accrued liabilities, distributions payable to non-controlling interests, income taxes payable, promissory notes payable and the portions of deferred network services revenue, the deferred compensation liability, the provision for performance bonus, bank debt and lease obligations that are payable within one year of the reporting date.

Working capital at December 31, 2019 was \$4.4 million compared with \$(5.7) million as at December 31, 2018, with the increase during the period related primarily to a \$6.5 million increase in accounts receivable and a reclassification of \$17.7 of bank debt as a non-current liability in the non-consolidated financial statements of the Corporation effective February 5, 2019, partially offset by a \$3.1 million increase in accounts payable and accrued liabilities, the addition of promissory notes payable of \$8.5 million and the inclusion of \$0.3 million in current lease obligations following the implementation of IFRS 16 and the acquisition of WireIE.

The Corporation, on a non-consolidated basis, retains sufficient capital to ensure it meets the minimum excess working capital requirement of \$100,000 under applicable securities law.

At December 31, 2019, \$112.6 million (64%) of the \$175.3 million committed to Crown Partners Fund to that date by limited partners other than Crown had been drawn by Crown Partners Fund, leaving \$62.6 million of committed capital available to Crown Partners Fund from parties other than Crown. As at December 31, 2019, Crown Partners Fund had total committed capital of \$286.4 million, including commitments by Crown, and a maximum size of \$500.0 million.

At December 31, 2019, \$13.3 million (40%) of the \$32.9 million committed to Crown Power Fund to that date by limited partners other than Crown had been drawn by Crown Power Fund, leaving \$19.6 million of committed capital available to Crown Power Fund from parties other than Crown. As at December 31, 2019, Crown Power Fund had total committed capital of \$57.9 million including commitments by Crown.

The Corporation also has the ability to raise additional liquidity through the issuance of securities and sale of holdings of investments and other holdings, although we are generally able to finance our operations and capital requirements through other means.

The carrying value of financial liabilities broken down by contractual maturity is as follows:

AS AT DEC. 31 (THOUSANDS)	2019	2018
<b>Contractual maturity:</b>		
On demand.....	\$ -	\$ -
0 - 12 months.....	15,126	4,195
1 - 3 years.....	40,336	17,730
3 - 5 years.....	21,083	18,222
5 years or more.....	2,634	2,944
Total carrying value of financial liabilities	<u>\$ 79,179</u>	<u>\$ 43,091</u>

## Off-Balance Sheet Arrangements and Unfunded Commitments

### *Uncalled Commitments to Managed Investment Funds*

The Corporation, through its wholly owned subsidiary CCFC, has subscribed for limited partnership units in several investment funds managed by the Corporation, namely Crown Partners Fund, CCF IV Investment LP and Crown Power Fund. Through its ownership of these limited partnership units, the Corporation has made contractual commitments to contribute funds to each of these entities up to a prescribed maximum value per unit, as called by the respective general partners of these investment funds. The table below summarizes the total capital commitment of the Corporation to each investment fund, as well as the uncalled portion of such capital commitments as at each of December 31, 2019 and December 31, 2018.

AS AT DEC. 31 (THOUSANDS, EXCEPT UNITS)	2019		2018	
	Units Subscribed by CCFC	Capital Commitment	Uncalled Capital Commitment	Uncalled Capital Commitment
Crown Partners Fund.....	107,840	\$ 107,840	\$ 38,543	\$ 35,824
CCF IV Investment LP.....	3,270	3,270	1,171	1,057
Crown Power Fund.....	25,000	25,000	14,909	-
Total.....			<u>\$ 54,623</u>	<u>\$ 36,881</u>

As the manager of each of Crown Partners Fund, CCF IV Investment LP and Crown Power Fund, Crown controls the timing and level of funding requirements in relation to its capital commitments to these funds.

### *Other Unfunded Commitments*

As at December 31, 2019, Crown Power Fund had committed to contracts valued at \$21.6 million in relation to the construction of power generation assets, of which \$10.3 million had been advanced to suppliers and contractors, resulting in an unfunded commitment of approximately \$11.2 million, of which \$6.4 million was attributable to non-controlling interests.

Of Crown Partners Fund's \$15 million funding commitment to VIQ Solutions, \$8.9 million had been advanced as at December 31, 2019, resulting in an unfunded commitment of \$6.1 million as at that date, of which \$3.7 million was attributable to non-controlling interests.

Through WireIE, the Corporation had \$3.1 million in backhaul commitments relating to its use of broadband network infrastructure as at December 31, 2019.

The Corporation has guaranteed the repayment of loans advanced to executives by a third-party financial institution pursuant to the Corporation's executive share purchase plan which totaled \$2.5 million as at December 31, 2019, and which are secured by Common Shares owned by participants in the executive share purchase plan Share with a value of \$3.0 million as at December 31, 2019.

Crown has no other material off-balance sheet arrangements.

## REVIEW OF THE CONSOLIDATED STATEMENTS OF CASH FLOWS

The following table summarizes the consolidated statements of cash flows within our consolidated financial statements:

FOR THE YEARS ENDED DEC. 31 (THOUSANDS)	2019	2018
Operating activities.....	\$ 13,662	\$ 18,070
Investing activities.....	(25,927)	(75,415)
Financing activities.....	9,319	27,546
Decrease in cash and cash equivalents.....	\$ (2,946)	\$ (29,799)

### Operating Activities

Cash provided by operations totaled \$13.7 million in the twelve months ended December 31, 2019, a \$4.4 million decrease compared with \$18.1 million in 2018 due primarily to a \$5.7 million year-over-year increase in the amount of non-cash interest income recognized.

### Investing Activities

Cash used in investing activities totaled \$25.9 million in the twelve months ended December 31, 2019 compared with \$75.4 million in 2018. The decrease was due primarily to a \$32.9 million increase in proceeds from loan repayments, a \$13.8 million reduction in additions to investments, and a \$5.0 million reduction in the purchase of distributed power equipment under development and related deposits. Loan repayments in the twelve months ended December 31, 2019 included proceeds in relation to the BGO, Baylin and Canadian Helicopters loans and from the partial repayment of the Solo investment. Additions to investments in the twelve months ended December 2019 included amounts advanced to each of Triple Five, Rokstad Power, Data Communications and Touchstone.

### Financing Activities

Cash provided by financing activities totaled \$9.3 million in the twelve months ended December 31, 2019 compared with \$27.5 million in 2018. The decrease was due mainly to the issuance of convertible debentures in 2018, which provided \$18.7 million of cash to the Corporation, net of issuance costs. The primary financing-related sources of cash in the twelve months ended December 31, 2019 were non-controlling interest contributions to each of Crown Partners Fund and Crown Power Fund and advances, net of repayments, in relation to credit facilities. The primary financing-related uses of cash in the twelve months ended December 31, 2019 included distributions paid by Crown Partners Fund to non-controlling interests and dividend paid to Shareholders of the Corporation.

On March 12, 2020, the Corporation declared a quarterly dividend of \$0.15 per Common Share. The dividend will be paid on March 27, 2020 to Shareholders of record on March 13, 2020.

## PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS

### ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS

#### Overview

This MD&A of the consolidated operating and financial performance of the Corporation for the year ended December 31, 2019 is prepared as of March 12, 2020. This discussion is the responsibility of management and should be read in conjunction with the Corporation's December 31, 2019 audited consolidated financial statements and the notes thereto, prepared in accordance with IFRS, and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com). The board of directors has approved this MD&A. All amounts therein are expressed in Canadian dollars unless otherwise indicated.

We present our consolidated balance sheets on a non-classified basis, meaning that we do not distinguish between current and long-term assets or liabilities. We believe this classification is appropriate given the nature of our business strategy.

#### Critical Estimates and Accounting Policies

The preparation of the consolidated year-end 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. Actual results could differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Information about judgments, assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in the audited consolidated financial statements for the year ended December 31, 2019 are included in the following notes in those financial statements:

- Note 3 – Significant accounting policies;
- Note 4 – Financial instruments;
- Note 7 – Share-based compensation;
- Note 15 – Acquisition of subsidiary;
- Note 17 – Property and equipment; and
- Note 18 – Network services contracts.

Additional information about critical estimates and accounting policies can be found in the Corporation's 2019 audited consolidated financial statements and notes thereto and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

#### Current Period Changes in Accounting Policies

##### ***IFRS 16 “Leases” (“IFRS 16”):***

Effective January 1, 2019 the Corporation adopted IFRS 16, replacing IAS 17 “Leases”. IFRS 16 introduced a single, on-balance sheet accounting model for leases. 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.

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 as 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 \$0.5 million and a lease liability in the amount of \$0.5 million, with a nil difference in retained earnings. Upon the acquisition of WireIE on July 12, 2019, the Corporation assumed additional right-of-use assets in the amount of \$5.1 million and a related lease liability in the amount of \$5.3 million.

### **Accounting Policies Adopted in the Current Period:**

As a result of the acquisition of WireIE on July 12, 2019, certain new accounting policies have been adopted, which are as follows:

#### ***Network services revenue recognition***

Network services revenues are comprised of the following types of revenue:

- *Professional services revenue*

Revenue from professional services, network support, maintenance and repair services is recognized as the related service is rendered.

- *Contractual network services revenue*

Contractual network services revenue relates to the access to and usage of telecommunications infrastructure. There are two types of contractual network services revenue: (i) non-recurring revenues related to the upfront installation of network elements are invoiced at the time of installation and are deferred and recognized on a straight-line basis over the term of the customer life, which is generally three to five years in duration; and (ii) monthly recurring revenues relating to the ongoing operation of network services that are recognized as the service is rendered over the term of the arrangement.

Network services revenue is recognized to the extent the performance obligations to the customer have been satisfied.

The contracts with customers do not have a significant financing component. Payments are typically due 30-60 days from the billing date and are typically rendered on a monthly basis.

Costs of contract acquisition, namely commissions expense, are capitalized and subsequently recognized as an expense over the customer life.

#### ***Network services equipment***

Network services equipment is depreciated on a straight-line basis over its estimated useful life, which ranges between 6-15 years, depending on the nature of the equipment. Depreciation includes the amortization of right-of-use assets under finance leases where the Corporation is the lessee. The total cost of network equipment situated at customers' premises, associated installation costs and costs of contract acquisition are capitalized as incurred.

The Corporation leases network services equipment and properties, including the usage of third-party tower space through network co-location arrangements. As a lessee, the Corporation recognizes right-of-use assets and lease liabilities for most leases and recognizes the lease payments associated with these leases as an expense on a straight-

line basis over the lease term. The Corporation has elected not to recognize right-of-use assets and lease liabilities for some leases of low-value assets.

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### ***Network services contracts***

Intangible assets in respect of the WireIE acquisition relate to customer contracts acquired.

Intangible assets with finite lives are amortized on a straight-line basis over their estimated useful lives, which are reviewed at least annually and adjusted as appropriate.

Network services contracts are subject to amortization on a straight-line basis as the Corporation believes that this method reflects the consumption of resources related to the economic lifespan of these assets better than a diminishing basis and is more representative of the economic substance of the underlying use of the assets. The estimated useful life for a network services contract ranges between 4-6 years and the intangible assets related to such contracts are depreciated on a straight-line basis over 4-6 years, with consideration for the average remaining useful life of the contracts. Indicators of impairment such as competitive pressures and technological obsolescence are considered when determining whether the carrying value of an asset is recoverable. An impairment loss would be recorded to the extent the carrying value of an asset was not considered to be recoverable.

## **DISCLOSURE CONTROLS AND INTERNAL CONTROLS**

The Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) are responsible for establishing and maintaining disclosure controls and procedures (“DC&P”) and internal control over financial reporting (“ICFR”), as those terms are defined in National Instrument 52-109 - Certification of Disclosure in Issuers’ Annual and Interim Filings. The CEO and CFO have designed, or caused to be designed under their direct supervision, Crown’s DC&P to provide reasonable assurance that:

- material information relating to Crown, including its consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which the annual filings are being prepared; and
- information required to be disclosed in the annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported on a timely basis.

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of WireIE, of which Crown acquired a 100% interest on July 12, 2019. The total aggregate assets acquired and total aggregate liabilities assumed at closing, before deducting amounts attributable to non-controlling interests, represented approximately 5.4% and 4.0% of total consolidated assets and total consolidated liabilities, respectively, as at December 31, 2019. The impact of the acquisition on consolidated net income attributable to Shareholders for the year ended December 31, 2019, excluding the \$0.1 million realized gain recognized in relation to the acquisition transaction and both a \$0.3 million realized gain and a \$0.1 million recovery of expected credit loss that were recognized in relation to the effective termination of the Corporation’s loan to WireIE, which had been measured at amortized cost, was a net loss of \$(0.9) million which includes depreciation expense of \$1.9 million. Management is committed to removing this limitation within the timeframe permitted by regulation.

The CEO and CFO have also designed, or caused to be designed under their direct supervision, Crown’s ICFR to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. The ICFR have been designed using the control framework established in Internal Control – Integrated Framework published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013.

The CEO and CFO have evaluated the design and operating effectiveness of Crown's DC&P and ICFR and concluded that Crown's DC&P and ICFR were effective as at December 31, 2019. While Crown's CEO and CFO believe that the Corporation's internal controls and procedures provide a reasonable level of assurance that such controls and procedures are reliable, an internal control system cannot prevent all errors and fraud. It is management's belief that any control system, no matter how well conceived or operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met.

There were no changes in Crown's ICFR during the year ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, Crown's ICFR.

## PART 6 – RISKS AND FORWARD-LOOKING STATEMENTS

### RISK FACTORS

Crown operates in a dynamic environment that involves various risks, many of which are beyond Crown's control and which could have an effect on Crown's business, revenues, operating results and financial condition.

In the short term, a significant risk to the Corporation is that all financing clients repay their loans and replacement loans are not completed such that interest, fees and other income and the capital base for determination of management fee revenues drop significantly. In the longer term, an inability to raise and place additional capital on which to charge interest and management fees would be a significant risk.

A risk that is common among Crown Partners Fund, Crown Private Credit Fund, Crown Power Fund and WireIE is credit risk, as discussed in *Financial Instruments and Associated Risks*. Although Crown intends to offer financing solutions, long-term power supply contracts and network services contracts only to clients with a history of profitability, there can be no assurance that its financing clients, long-term power supply counterparties or network services counterparties will not default and that Crown will not sustain a loss as a result.

The primary risk factor for Crown Partners Fund is credit risk, being the potential inability of one or more of the 10 portfolio companies to meet their debt obligations to Crown Partners Fund.

Through its ownership of equity and equity-related securities, Crown Partners Fund is exposed to market price risk. As at December 31, 2019, Crown Partners Fund held Source common shares which were valued at \$0.03 million, Prairie Provident common shares which were valued at \$0.2 million, Medicare common share purchase warrants which were valued at \$0.1 million, Baylin common share purchase warrants which were valued at \$0.2 million, Data Communications common share purchase warrants valued at \$0.1 million, Persta warrants valued at \$0.02 million, VIQ Solutions common shares which were valued at \$0.1 million and VIQ Solutions common share purchase warrants which were valued at \$0.3 million. As at December 31, 2019, Crown held additional VIQ Solutions common shares which were valued at \$0.1 million. A reduction in the value of these warrants or shares would reduce the value of Crown's Investments.

The primary risk factor for Crown Private Credit Fund is credit risk, being the potential inability of PenEquity or Mill Street to meet their obligations to Crown Private Credit Fund.

The primary risk factor for Crown Power Fund is credit risk, being the potential inability of counterparties to long-term power supply contracts to meet their obligations to Crown Power Fund. Crown Power Fund is also exposed to the risk that project development advances provided to Operating Partners might not be appropriately applied to project development costs and that any resultant amounts owing to Crown Power Fund might not be recoverable.

The primary risk factor for WireIE is contract cancellation risk, being the risk that an above-normal level of existing term contracts is not renewed and extended at maturity and that existing month-to-month contracts are canceled at an above-normal pace. To the extent that the level of network services revenue added through the establishment of new customer contracts does not sufficiently offset the impact of contract cancellations on network services revenue, the resulting reduction of operating leverage could negatively impact WireIE's contribution to the consolidated net income of the Corporation. A related risk factor for WireIE is customer concentration risk, being the risk associated with WireIE's reliance on the renewal of network services contracts with a significant customer, which comprise the majority of its accounts receivable and network services revenues to date.

See *Note 5 – Financial risk management* in the Corporation's December 31, 2019 audited consolidated financial statements.

A more extensive discussion of the risks faced by the Corporation can be found in the Corporation's Annual Information Form ("AIF") available on SEDAR at [www.sedar.com](http://www.sedar.com).



## FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, share purchase loans, accounts payable and accrued liabilities, distributions payable to non-controlling interests, credit facilities and convertible debentures – liability component. The fair values of share purchase loans and credit facilities approximate their respective carrying values due to the variable rate of interest applicable to these instruments. The carrying value of the convertible debenture – liability component approximates fair value due to the market interest rate as at December 31, 2019 which was consistent with that used to record the convertible debenture – liability component upon initial recognition at fair value on June 13, 2018. The fair values of other financial instruments approximate carrying value due to the short term to maturity of the instruments. The provision for deferred compensation 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.

The Corporation, through its subsidiaries CCFC, Crown Partners Fund and Crown Private Credit Fund, also holds investments in debt securities which are measured at amortized cost and at FVTPL and equity securities which are measured at FVTPL.

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation's Canadian equity securities include Crown Partners Fund's interest in Source common shares, Prairie Provident common shares and VIQ Solutions common shares plus additional VIQ Solutions common shares held by Crown. The Corporation's Canadian warrants include Crown Partners Fund's interest in common share purchase warrants of VIQ Solutions, Medicure, Baylin, Data Communications and Persta. Source, Prairie Provident, VIQ Solutions, Medicure, Baylin, Data Communications and Persta are publicly-traded companies. The primary risk to the FVTPL of these equity securities is market risk.

Credit risk is the risk of financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Corporation's investments in debt securities. Most of the debt instruments held by the Corporation are unrated and all are relatively illiquid. Repayments are dependent on the ability of the underlying businesses to generate sufficient cash flow from operations, refinancings or the sale of assets or equity. For loans carried at fair value through profit and loss, the terms of the individual debt instruments and the risks of the underlying businesses are reflected in the fair values at the reporting date. The Corporation actively reviews collateral of the underlying businesses, including fixed assets, inventory and receivables. The Corporation monitors financial results and collateral values of the underlying businesses regularly against the underlying business plans and industry trends. The carrying value of loans at amortized cost is net of an allowance for credit losses that reflects management's estimation of expected credit loss for each loan carried at amortized cost.

The Corporation's Canadian debt securities include Crown Partners Fund's loans to Touchstone, Source, Ferus, RBee, Active, Data Communications, Persta, Triple Five, VIQ Solutions and Rokstad Power, and Crown Private Credit Fund's loans to PenEquity and Mill Street. The primary risk to the carrying value of these debt securities is credit risk. Other than the PenEquity and Mill Street loans, which bear floating interest rates, these debt securities bear fixed interest rates which impacts interest rate risk.

The Corporation's investments are denominated in Canadian currency so there is no currency risk associated with the above investments except to the extent of investees' underlying operations which in some cases are dependent on revenues and are exposed to costs denominated in foreign currencies.

Additional information about financial instruments and associated risks can be found in the Corporation's 2019 audited consolidated financial statements and notes thereto and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

Statements that are not reported financial results or other historical information are forward-looking statements within the meaning of applicable Canadian securities laws (collectively, “**forward-looking statements**”). This MD&A includes forward-looking statements regarding Crown and the industries in which it operates, including statements about, among other things, expectations, beliefs, plans, future loans and origination, business and acquisition strategies, opportunities, objectives, prospects, assumptions, including those related to trends and prospects and future events and performance. Sentences and phrases containing or modified by words such as “anticipate”, “plan”, “continue”, “estimate”, “intend”, “expect”, “may”, “will”, “project”, “predict”, “potential”, “targets”, “projects”, “is designed to”, “strategy”, “should”, “believe”, “contemplate” and similar expressions, and the negative of such expressions, are not historical facts and are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Forward-looking statements should not be read as guarantees of future events, future performance or results, and will not necessarily be accurate indicators of the times at, or by which, such events, performance or results will be achieved, if achieved at all. Forward-looking statements are based on information available at the time and/or management’s expectations with respect to future events that involve a number of risks and uncertainties, any of which could cause actual results to differ materially from those expressed in or implied by the forward-looking statements. The factors described under the heading “Risk Factors” in this MD&A and in the AIF, as well as any other cautionary language in this MD&A, provide examples of risks, uncertainties and events that may cause Crown’s actual results to differ materially from the expectations it describes in its forward-looking statements. Readers should be aware that the occurrence of the events described in these risk factors and elsewhere in this MD&A could have an adverse effect on, among other things, Crown’s business, prospects, operations, results of operations and financial condition.

Specific forward-looking statements contained in this MD&A include, among others, statements, management’s beliefs, expectations or intentions regarding the following:

- the Corporation’s intentions for the use of its cash and cash equivalents and the timing thereof, including additional capital contributions to Crown Partners Fund, Crown Private Credit Fund and Crown Power Fund;
- the future capitalization of Crown Partners Fund, Crown Private Credit Fund, Crown Power Fund and Crown and future closings in relation thereto;
- the sourcing of deals from Crown’s established network and its potential pipeline of projects;
- the investments of Crown Partners Fund in Special Situations Financing transactions and the potential structuring of such transactions;
- the investments of Crown Private Credit Fund in Long-Term Financing transactions and the potential structuring of such transactions;
- the alternative financial market and the general economy;
- the performance of financing clients;
- the effect of delays between the repayment of loans and the redeployment of capital on Crown’s financial condition;
- the determination of recovery levels and values realized on liquidation of security held, when necessary, for Crown’s loans going forward;
- the effect of the early repayment of loans on anticipated interest income;

- the ability of Crown to direct the activities of its managed funds and to determine the timing and level of funding requirements in relation to its capital commitment to these funds;
- the future profitability of operating partners affiliated with Crown Power Fund and the expected recoverability of amounts owed to the Corporation by such operating partners;
- the distributed power market in general, and in our current geographic regions of focus in particular, and the ability of Crown Power Fund to source additional projects in which to invest going forward;
- the recoverability of costs incurred in the development of distributed power assets through the subsequent receipt of lease payments over the duration of the lease contracts in relation to such assets;
- the Corporation's intention to create a capital pool that invests in certain assets of WireIE, to seek funding commitments to this capital pool by third-party investors, and to generate management fee revenue in relation to managing this capital pool;
- the estimated useful life and recoverability of carrying values in respect of intangible assets representing the fair value of service contracts assumed on the acquisition of WireIE;
- the Corporation's business plans and strategy;
- the Corporation's future cash flow and shareholder value;
- the non-recurring nature of certain expenses;
- the future recoverability of accounts receivable;
- Crown's future entitlement to base management and performance fees;
- the future accounting policies of the Corporation;
- the ability of Crown Partners Fund to achieve enhanced returns through the use of debt financing to achieve financial leverage;
- the Corporation's ability to secure debt financing on terms acceptable to the Corporation (or obtaining debt financing); and
- the vesting of Share Units and Options.

Readers are cautioned that the foregoing list of forward-looking statements should not be construed as being exhaustive.

In making the forward-looking statements in this MD&A, the Corporation has made assumptions regarding general economic conditions, reliance on debt financing, interest rates, continued lack of regulation in the business of lending from sources other than commercial banks or equity transactions, continued operation of key systems, debt service, future capital needs, retention of key employees, adequate management of conflicts of interests, continued performance of the Crown funds and solvency of financing clients, competition, limited loan prepayment, demand for Distributed Power Solutions, demand for Network Services solutions, effective use of leverage, strength of existing client relationships, regulatory oversight and such other risks or factors described in this MD&A, the AIF and from time to time in public disclosure documents of Crown that are filed with securities regulatory authorities.

The forward-looking statements included in this MD&A are expressly qualified by this cautionary statement and are made as at the date of this MD&A. The Corporation does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable securities laws. If the Corporation does update one or more forward-looking statements, it is not obligated to, and no inference should be drawn that it will, make additional updates with respect thereto or with respect to other forward-looking statements.

Readers are further cautioned that the preparation of financial statements in accordance with IFRS requires management to make certain judgments and estimates that affect the reported amounts of assets, liabilities, revenues, and expenses. These estimates may change, having either a positive or negative effect on net income, as further information becomes available and as the economic environment changes.

## **NON-IFRS MEASURES**

We disclose a number of financial measures in this MD&A that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). We utilize these measures in managing the business, including for performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this MD&A. Please refer to our *Glossary of Terms* beginning on page 53 for all non-IFRS measures.

## **MARKET AND INDUSTRY DATA**

Certain market and industry data contained in this MD&A is based upon information from government or other third-party publications, reports and websites or based on estimates derived from such publications, reports and websites. Government and other third-party publications and reports do not guarantee the accuracy or completeness of their information. While management believes this data to be reliable, market and industry data is subject to variations and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data-gathering process and other limitations and uncertainties inherent in any statistical survey. Crown has not independently verified any of the data from government or other third-party sources referred to in this MD&A or ascertained the underlying assumptions relied upon by such sources.

## **TRADEMARKS, TRADE NAMES AND SERVICE MARKS**

All trademarks used in this MD&A are the property of their respective owners and may not appear with the ® symbol.

# GLOSSARY OF TERMS

The below summarizes certain terms relating to our business that are made throughout the MD&A and it defines non-IFRS performance measures that we use to analyze and discuss our results.

## References

“Crown”, the “Corporation”, “we”, “us” or “our” refers to Crown Capital Partners Inc. and its consolidated subsidiaries. We refer to investors in the Corporation as “shareholders” and we refer to investors in our managed limited partnerships as “investors”.

Throughout the MD&A, the following operating companies, limited partnerships, portfolio companies and their respective subsidiaries will be referenced as follows:

- **“Active”** – Active Exhaust Corp.
- **“Baylin”** – Baylin Technologies Inc.
- **“BGO”** – Bill Gosling Outsourcing Holding Corp.
- **“Canadian Helicopters”** – Canadian Helicopters Limited
- **“CCF III”** Crown Capital Fund III Management Inc.
- **“CCF IV Investment LP”** – Crown Capital Fund IV Investment, LP
- **“CCFC”** – Crown Capital Funding Corporation
- **“Crown Partners Fund”** – Crown Capital Partner Funding, LP
- **“Crown Partners Fund GP”** – Crown Capital LP Partner Funding Inc.
- **“Crown Power Fund”** – Crown Capital Power Limited Partnership
- **“Crown Power GP”** – 10824356 Canada Inc.
- **“Crown Private Credit Fund”** – Crown Capital Private Credit Fund, LP
- **“Data Communications”** – Data Communications Management Corporation
- **“Ferus”** – Ferus Inc.
- **“Marquee”** – Marquee Energy Ltd.
- **“Medicure”** – Medicure Inc.
- **“Mill Street”** – Mill Street & Co. Inc.
- **“NCOF II”** – Norrep Credit Opportunities Fund II, LP
- **“NCOF II Parallel”** – Norrep Credit Opportunities Fund II (Parallel), LP
- **“NCOF LP”** – Norrep Credit Opportunities Fund, LP
- **“PenEquity”** – PenEquity Realty Corporation
- **“Persta”** – Persta Resources Inc.
- **“Petrowest”** – Petrowest Corporation
- **“Prairie Provident”** – Prairie Provident Resources Inc.
- **“RBee”** – RBee Aggregate Consulting Inc.
- **“Rokstad Power”** – Rokstad Holdings Corporation
- **“Solo”** – Solo Liquor Holdings Limited
- **“Source”** – Source Energy Services Canada
- **“Touchstone”** – Touchstone Exploration Inc.
- **“Triple Five”** – Triple Five Intercontinental Group Ltd.
- **“VIQ Solutions”** – VIQ Solutions Inc.
- **“WireIE”** – WireIE Holdings International Inc.
- **“WireIE Canada”** – WireIE (Canada) Inc.

## Non-IFRS Measures

**Capitalization at “our share”** is a non-IFRS measure and presents our share of debt and other obligations based on our ownership percentage of the related subsidiaries. We use this measure to provide insight into the extent to which our capital is leveraged in each investment, which is an important component of enhancing shareholder returns. This may differ from our consolidated leverage because of the varying levels of ownership that we have in consolidated investments that, in turn, have different degrees of leverage. We also use capitalization at our share to make financial risk management decisions at the Corporation.

A reconciliation of consolidated liabilities and equity to capitalization at our share is provided below:

AS AT DEC. 31 (THOUSANDS)	2019	2018
Total consolidated liabilities and equity.....	299,653	275,921
Less: non-controlling interests' share of liabilities		
Accounts payable and accrued liabilities.....	(387)	(47)
Distributions payable to non-controlling interests.....	(1,490)	(1,742)
Promissory note payable.....	(5,212)	-
Provision for performance bonus.....	(1,283)	(1,688)
Credit facilities.....	(15,021)	-
Non-controlling interests.....	(122,996)	(127,938)
Total capitalization at our share.....	153,263	144,506

### Adjusted Funds from Operations

Crown defines Adjusted Funds from Operations as earnings attributable Shareholders before finance costs, income taxes and depreciation and amortization expense (net of payments made in respect of right-of-use lease assets) and before amounts attributable to Shareholders in respect of the following items:

- non-cash, share-based compensation;
- non-recurring, non-cash items including impairment of distributed power equipment and loss on acquisition;
- unrealized gains / (losses) on investments;
- provision for expected credit losses;
- the amortization component of interest revenue recognized on loans carried at amortized cost;
- financing fees that were received in relation to investments measured at amortized cost but not recognized in revenue of the period;
- the amortization component of network services revenue;
- network services fees that were received in the period but not recognized in revenue of the period.

Compared with our prior period disclosures, we have revised our calculation of Adjusted Funds from Operations to add back the portion of the provision for credit losses attributable to Shareholders. This is consistent with our treatment of unrealized gains (losses) on investments, another non-cash item that relates to changes in the carrying value of investments, and we note that any gains or losses realized upon the disposition of an investment are included in Adjusted Funds from Operations at the time of disposition.

We believe that Adjusted Funds from Operations is a useful supplemental measure in the context of Crown's specialty finance focus to assist investors in assessing the cash anticipated to be generated by Crown's business, including cash received in relation to its various revenue streams, that is attributable to Shareholders.

Adjusted Funds from Operations in 2019 totaled \$5.3 million compared with \$13.2 million in 2018.

A reconciliation of earnings before income taxes to Adjusted Funds from Operations for the years ended December 31, 2019 and December 31, 2018 is shown in the following table:

FOR THE PERIODS ENDED DEC. 31 (THOUSANDS)	2019	2018
<b>Earnings before income taxes attributable to Shareholders</b> .....	<b>\$ 272</b>	<b>\$ 9,956</b>
Adjustments for amounts attributable to Shareholders in relation to: <sup>1</sup>		
Finance costs.....	<b>3,362</b>	2,096
Depreciation expense, net of lease payments on right-of-use assets.....	<b>1,151</b>	34
Subtotal - Earnings attributable to Shareholders before income, finance costs and depreciation expense, net of lease payments on right-of-use assets.....	<b>4,785</b>	<b>12,087</b>
Adjustments for amounts attributable to Shareholders in relation to: <sup>1</sup>		
Non-cash share-based compensation.....	<b>565</b>	1,000
Asset impairment expense.....	<b>325</b>	-
Gain on acquisition.....	<b>(85)</b>	-
Net unrealized investment losses.....	<b>(2)</b>	(1,066)
Provision for credit losses.....	<b>292</b>	-
Finance fees received in investments carried at amortized cost but not included in fees and other income.....	<b>772</b>	1,909
Amortization component of interest revenue on loans carried at amortized cost.....	<b>(1,736)</b>	(730)
Network services fees received on customer contracts but not included in contractual network services revenue.....	<b>362</b>	-
Amortization component of network services revenue.....	<b>22</b>	-
<b>Adjusted Funds from Operations</b> .....	<b>\$ 5,301</b>	<b>\$ 13,199</b>

1. Adjustments exclude any amounts attributable to non-controlling interests.

Adjusted Funds from Operations decreased in 2019 compared with 2018 due primarily to the recognition of a realized loss related to the Solo investment, the incurrence of a \$2.5 million provision for bad debt, a lower level of net unrealized gains attributable to Shareholders and increases in legal and GST/HST expenses that management believes will be non-recurring.

The following table provides a quarterly reconciliation of earnings before income taxes to Adjusted Funds from Operations for the period from January 1, 2018 to December 31, 2019.

FOR THE PERIODS ENDED DEC. 31 (THOUSANDS)	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
<b>Earnings (loss) before income taxes attributable to Shareholders....</b>	<b>\$ 1,631</b>	<b>\$ 1,031</b>	<b>\$ 3,092</b>	<b>\$ (5,482)</b>	<b>\$ 3,311</b>	<b>\$ 2,421</b>	<b>\$ 2,806</b>	<b>\$ 1,417</b>
Adjustments for amounts attributable to Shareholders in relation to: <sup>2</sup>								
Finance costs.....	<b>1,024</b>	863	630	845	849	768	344	135
Depreciation expense, net of lease payments on right-of-use assets....	<b>298</b>	849	2	2	15	15	3	1
Subtotal - Earnings (loss) attributable to Shareholders before income taxes, finance costs and depreciation expense, net of lease payments on right-of-use assets.....	<b>2,953</b>	2,743	3,724	(4,634)	4,175	3,204	3,153	1,553
Adjustments for amounts attributable to Shareholders in relation to: <sup>2</sup>								
Non-cash share-based compensation.....	<b>304</b>	163	72	26	226	(104)	420	458
Asset impairment expense.....	<b>325</b>	-	-	-	-	-	-	-
(Gain) loss on acquisition.....	<b>(280)</b>	195	-	-	-	-	-	-
Net unrealized investment (gains) losses.....	<b>(228)</b>	(3,312)	(1,727)	5,266	(570)	(281)	(383)	167
Provision for credit losses.....	<b>246</b>	(65)	35	75	-	-	-	-
Finance fees received in investments carried at amortized cost but not included in fees and other	<b>214</b>	96	-	462	391	506	560	452
Amortization component of interest revenue on loans carried at amortized	<b>(468)</b>	(415)	(339)	(514)	(314)	(171)	(131)	(114)
Network services fees received on customer contracts but not included in contractual network services revenue.....	<b>133</b>	229	-	-	-	-	-	-
Amortization component of network services revenue.....	<b>191</b>	(169)	-	-	-	-	-	-
<b>Adjusted Funds from Operations.....</b>	<b>\$ 3,390</b>	<b>\$ (536)</b>	<b>\$ 1,766</b>	<b>\$ 681</b>	<b>\$ 3,908</b>	<b>\$ 3,154</b>	<b>\$ 3,619</b>	<b>\$ 2,517</b>

1. The Corporation is not subject to income taxation on net income attributable to non-controlling interests.

2. Adjustments exclude any amounts attributable to non-controlling interests.