

Crown Capital Partners Inc.  
2018 SECOND QUARTER REPORT

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# Management's Discussion and Analysis

for the three and six months ended June 30, 2018

## Management's Discussion and Analysis

The following Management's Discussion and Analysis ("**MD&A**") of the consolidated operating and financial performance of Crown Capital Partners Inc. ("**Crown**" or the "**Corporation**") for the three and six months ended June 30, 2018 is prepared as of August 7, 2018. This discussion is the responsibility of management and should be read in conjunction with the Corporation's June 30, 2018 condensed consolidated interim financial statements and the notes thereto, prepared in accordance with International Financial Reporting Standards ("**IFRS**"), and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com). The board of directors of the Corporation has approved this MD&A. All amounts herein are expressed in Canadian dollars unless otherwise indicated. See "Forward-Looking Statements".

## References

Throughout this 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
- "**CCF IV LP**" – Crown Capital Fund IV, LP
- "**CCFC**" – Crown Capital Funding Corporation
- "**Crown Partners Fund**" – Crown Capital Partner Funding, LP, formerly CCF IV LP
- "**Crown Power Fund**" – Crown Capital Power, LP
- "**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.
- "**Genphix**" – Genphix Corporation
- "**Marquee**" – Marquee Energy Ltd.
- "**MCS 16**" – MCS Energy 16 Inc.
- "**MCS 17**" – MCS Energy 17 Inc.
- "**MCS 20**" – MCS Energy 20 Inc.
- "**MCS 21**" – MCS Energy 21 Inc.
- "**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 Funds**" – NCOF II and NCOF II Parallel, collectively
- "**NCOF LP**" – Norrep Credit Opportunities Fund, LP
- "**PenEquity**" – PenEquity Realty Corporation
- "**Persta**" – Persta Resources Inc.
- "**Petrowest**" – Petrowest Corporation
- "**RBee**" – RBee Aggregate Consulting Ltd.
- "**Solo**" – Solo Liquor Holdings Limited
- "**Source**" – Source Energy Services Canada
- "**Touchstone**" – Touchstone Exploration Inc.
- "**WireIE**" – WireIE (Canada) Inc.

## Highlights of the Three Months Ended June 30, 2018

During the three months ended June 30, 2018:

- Crown earned net income and comprehensive income attributable to shareholders of the Corporation ("**Shareholders**") of \$2.0 million (2017 - \$1.8 million);
- On April 30, 2018, CCF IV LP announced an agreement to provide a \$12 million, 60-month loan to Data Communications with an interest rate of 10% per annum plus warrants to acquire 960,000 common shares of Data Communications;
- On May 16, 2018, CCF IV LP announced an agreement to provide a \$25 million, 60-month term loan to Persta with an interest rate of 12% per annum plus warrants to acquire 8,000,000 common shares of Persta. As at June 30, 2018, \$20 million had been advanced to Persta in relation to this term loan;
- On May 16, 2018, Crown, through Crown Private Credit Fund, provided a \$10 million, 10-year loan to Mill Street with a floating interest rate based on the five-year Government of Canada Bond yield plus 10%, subject to a minimum of 12%. This loan agreement includes an equity participation right based on the growth in Mill Street's equity value per share;
- On May 23, 2018, Crown, through Crown Private Credit Fund, announced an agreement to provide a \$10 million, 10-year loan to WireIE structured as a streaming facility that features a fixed interest rate and includes the issuance of warrants to Crown. No advances to WireIE had been made as at June 30, 2018, with \$5.9 million advanced subsequent to June 30, 2018;
- On June 20, 2018, Crown announced the full repayment by Petrowest of its special situations loan to CCF IV LP in addition to all accrued interest and supplemental fees, resulting in a realized Gross IRR<sup>1</sup> on CCF IV LP's aggregate investment in Petrowest of 18.2%;
- On June 13, 2018, the Corporation announced that it had closed a "bought deal" public offering of \$20 million aggregate principal amount of 6.00% convertible unsecured subordinated debentures ("Convertible Debentures") due June 30, 2023. The Convertible Debentures trade on the Toronto Stock Exchange under the symbol "CRWN.DB". The net proceeds of this offering were used to repay indebtedness under the company's credit facility, from which subsequent advances were used to partially fund new investments;
- On June 28, 2018, the Corporation announced the launch of Crown Power Fund, a new fund managed by Crown that intends to provide investors with attractive, utility-like income through the direct ownership of integrated energy platforms that provide electricity under long-term

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<sup>1</sup> "Gross IRR" means the gross internal rate of return generated from an investment before consideration of management fees and expenses and is calculated based on an investment's realized amounts and unrealized amounts (cash distributions) and actual cash outflows made in respect of an investment, with timing based on when such distributions occurred or are likely to occur. It is then calculated by determining the discount rate that will bring all cash flows (realized and unrealized) to a net present value of zero.

contracts to mid- to large-scale electricity users. Crown has initially committed \$15 million of capital to Crown Power Fund and expects to use its hybrid business model to raise additional capital for Crown Power Fund as needed;

- The Corporation announced on April 5, 2018 that it had received approval to implement a new normal course issuer bid for the 12-month period commencing April 10, 2018, with the right to purchase up to 300,000 outstanding common shares. This replaced a normal course issuer bid that expired on April 9, 2018; and
- On June 1, 2018, Crown paid a quarterly dividend of \$0.15 per common share of the Corporation ("**Common Share**") to Shareholders of record on May 18, 2018.

### **Subsequent Events**

Subsequent to June 30, 2018:

- An amended and restated limited partnership agreement for CCF IV LP came into effect on July 1, 2018 with provisions to change the name of the fund to Crown Capital Partner Funding, LP, increase the maximum size of the fund from \$300 million to \$500 million, and extend the investment period from September 2018 to December 31, 2019 with provisions to further extend the investment period with the approval of limited partners;
- On July 13, 2018, Crown Partners Fund received subscriptions for an additional 75,000 limited partnership units ("**Units**") at \$1,000 per Unit, increasing the total capital committed to Crown Partners Fund from \$225.0 million to \$300.0 million. Crown, through its wholly-owned subsidiary CCFC, subscribed for an additional 29,090 Units which increased its total commitment to Crown Partners Fund, including its existing commitment to CCF IV Investment LP, to \$111.3 million (June 30, 2018 - \$82.2 million) and increased its effective interest in Crown Partners Fund to 37.1% (June 30, 2018 – 36.5%). Of this commitment, \$75.6 million had been contributed as of June 30, 2018.
- On August 7, 2018, Crown announced a quarterly dividend of \$0.15 per Common Share payable on August 31, 2018 to Shareholders of record on August 17, 2018.

### **Overall Performance**

Total assets increased to \$277.7 million at June 30, 2018 from \$229.1 million at December 31, 2017, including an increase in the carrying value of investments to \$243.0 million from \$181.3 million resulting from net new investment activity that was funded primarily by \$18.4 million of contributions to CCF IV LP from non-controlling interests, \$18.7 million net proceeds from the issuance of Convertible Debentures, \$14.0 million of net advances from the Corporation's senior secured revolving credit facility (the "Credit Facility") and a decrease in cash and cash equivalents to \$22.0 million from \$41.1 million. Total equity remained consistent at \$104.3 million at June 30, 2018 compared with \$104.4 million at December 31, 2017, with reductions related to dividends declared, share repurchases and the adoption of IFRS 9 on January 1, 2018 offset by increases relating to net income, the issuance of convertible debentures and share-based compensation.

Total revenues in the three and six months ended June 30, 2018 were \$9.0 million and \$14.3 million, respectively, compared to \$7.7 million and \$14.5 million, respectively in the three and six months ended June 30, 2017. Interest revenue on investments held by CCF IV LP and Crown Private Credit Fund increased to \$6.3 million and \$11.8 million, respectively, in the three and six months ended June 30, 2018 compared to \$5.6 million and \$10.0 million, respectively, in the three and six months ended June 30, 2017, primarily due to increased lending activity of CCF IV LP. For the six months ended June 30, 2018, the year-over-year increases in interest revenue and in the net gain / (loss) on investments were more than offset by a decrease in fees and other income following the adoption of IFRS 9 and the inclusion of a \$1.0 million performance fee distribution in the prior-year period.

Fees and other income for the three and six months ended June 30, 2018 were \$1.6 million and \$1.8 million, respectively, lower than \$3.1 million and \$3.6 million, respectively, for the comparable periods in 2017 reflecting the differences in accounting policy under International Accounting Standards 39 *“Financial Instruments: Recognition and Measurement”* (**“IAS 39”**) in 2017 compared with IFRS 9 in 2018. Under IFRS 9, fees earned in relation to the origination of new loans carried at amortized cost are deferred and amortized into interest revenue calculated using the effective interest rate method. Fees deferred in this manner totaled \$0.9 million and \$1.6 million, respectively, in the three and six months ended June 30, 2018. For the six months ended June 30, 2018, the sum of fees and other income included in revenues and deferred finance fees received on loans carried at amortized cost was \$3.4 million, comparable to fees and other income of \$3.6 million included in revenues for the six months ended June 30, 2017.

For the three and six months ended June 30, 2018, the net gain/(loss) on investments was \$1.1 million and \$0.7 million, respectively, compared to \$(2.0) million and \$(0.2) million, respectively, in the three and six months ended June 30, 2018. The net realized gain from investments of \$0.2 million for each of the three- and six-month periods ended June 30, 2018 relates to the final repayment of the Petrowest loan. The net unrealized gain on investments of \$0.9 million and \$0.4 million, respectively, reflects net unrealized losses on equity-related investments which were more than offset by net gains on other investments, most notably on the Touchstone royalty investment in relation to a one-year contract extension negotiated in the second quarter of 2018.

Expenses in the three and six months ended June 30, 2018 were \$2.5 million and \$4.4 million, respectively, compared with \$3.0 million and \$4.7 million, respectively, in the three and six months ended June 30, 2017. The decreases compared with the comparable periods in 2017 are due to the inclusion in the three months ended June 30, 2017 of \$0.8 million of performance bonus expense associated with a \$1.0 million performance fee distribution included in revenues of the same period. Excluding this \$0.8 million performance bonus expense item, expenses in the three and six months ended June 30, 2018 increased by \$0.4 million and \$0.5 million, respectively, with these increases due primarily to a combination of \$0.2 million of start-up costs in relation to Crown Power Fund and higher finance costs resulting from a higher average level of outstanding debt.

In the three and six months ended June 30, 2018, net income and comprehensive income attributable to Shareholders was \$2.0 million and \$2.9 million respectively, compared with \$1.8 million and \$3.5 million, respectively, in the three and six months ended June 30, 2017. Compared with the comparable prior-year period, net income and comprehensive income attributable to Shareholders in the three months ended June 30, 2018 was higher due primarily to a higher net gain/(loss) on investments,

partially offset by the incurrence of \$0.2 million of start-up costs in relation to Crown Power Fund, a higher level of finance costs due to a higher average level of outstanding debt and a lower level of fees and other income following the adoption of IFRS 9 effective January 1, 2018.

Crown consolidates 100% of its approximate 36.5% effective interest in CCF IV LP (50% prior to July 1, 2016, 40% between July 1, 2016 and December 31, 2016, and 35% between January 1, 2017 and June 30, 2017) and its 100% interest in Crown Private Credit Fund and reflects the interests of other investors in these funds as non-controlling interests. The NCOF Funds were dissolved on June 30, 2017. Prior to its dissolution, Crown consolidated 100% of its approximate 69.75% interest in NCOF II. Crown holds its interests in CCF IV LP and Crown Private Credit Fund through CCFC, a 100%-owned subsidiary. Crown's 100%-owned subsidiary CCF III is the general partner and manager of NCOF LP.

Crown also consolidates its 100% interest in Crown Power Fund, its 100% interest in Crown Power GP, the general partner of Crown Power Fund, its 50% interest in MCS 21, which is held through Crown Power Fund, and its 50% interests in each of Genpix, MCS 20, MCS 17 and MCS 16, which are all held through MCS 21. The interests of other investors in MCS 21 are reflected in non-controlling interests.

Crown Power Fund was formed and Crown Power GP was incorporated effective June 8, 2018. Effective June 26, 2018, Crown Power Fund acquired a 50% interest in MCS 21 for consideration of \$nil.

The financial results of the Corporation as at and for the three and six months ended June 30, 2018 discussed in this MD&A include the results of operations of CCFC, NCOF II (to date of dissolution), CCF IV LP, Crown Private Credit Fund and CCF III.

## **Business Overview**

Crown is a specialty finance company 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 also manages capital pools, including some in which Crown has an ownership interest. 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.

Crown's revenue sources include interest revenue, transaction fees and realized and unrealized gains on investments made by its consolidated investment funds - NCOF II (until its dissolution on June 30, 2017), CCF IV LP and Crown Private Credit Fund - and management and performance fees as the fund manager of NCOF LP and NCOF II Parallel (until its dissolution on June 30, 2017).

Crown has historically offered special situations financing solutions to businesses for transitory capital requirements, generally in the form of short- and medium-term senior or subordinated loans, indirectly through a variety of funding arrangements ("**Special Situations Financing**").

Crown also deploys its capital through its wholly-owned subsidiary, Crown Private Credit Fund, to clients seeking non-dilutive, long-term capital, generally in the form of traditional interest-bearing loans and



royalties. Crown intends to develop a diversified portfolio of long-term financing clients across numerous industries to provide non-dilutive sources of long term capital in the form of fixed- and variable- rate long-term loans, participating loans, perpetual debt, income streaming and recurring revenue structures (“**Long-Term Financing**”).

Crown is also deploying capital through its wholly-owned subsidiary, Crown Power Fund, an investment fund established in June 2018 to invest directly in integrated energy platforms that provide electricity under long-term contracts to mid- to large-scale electricity users.

Crown, which was founded by Crown Life Insurance Company and owned by it until 2002, completed an initial public offering (“**IPO**”) in 2015 for gross proceeds of \$65 million. The Common Shares began trading on the Toronto Stock Exchange on July 9, 2015 and trade under the symbol TSX:CRWN.

## Portfolio at June 30, 2018

At June 30, 2018, Crown held ownership interests in 14 loans.

Borrower	Loan Principal Amount Outstanding at December 31, 2017 <sup>(1)</sup>	Loan Principal Amount Outstanding at June 30, 2018 <sup>(1)</sup>	Attributable at June 30, 2018 to:		Status
			Shareholders	Non-controlling interests	
<b>Special Situations Financing transactions</b>					
Petrowest	\$6,826,905	N/A	N/A	N/A	N/A
BGO <sup>3</sup>	\$15,000,000	\$15,000,000	\$5,481,636	\$9,518,364	Current
Touchstone <sup>2</sup>	\$15,000,000	\$15,000,000	\$5,481,636	\$9,518,364	Current
Source <sup>3</sup>	\$12,428,000	\$12,428,000	\$4,541,718	\$7,886,282	Current
Solo <sup>3</sup>	\$15,000,000	\$15,000,000	\$5,481,636	\$9,518,364	Current
Marquee <sup>2</sup>	\$30,000,000	\$30,000,000	\$10,963,272	\$19,036,728	Current
Ferus <sup>2</sup>	\$25,000,000	\$25,000,000	\$9,136,060	\$15,863,940	Current
RBee <sup>2</sup>	\$18,173,095	\$17,414,343	\$6,363,940	\$11,050,403	Current
Active <sup>3</sup>	\$7,000,000	\$7,000,000	\$2,558,097	\$4,441,903	Current
Canadian Helicopters <sup>3</sup>	\$8,000,000	\$8,000,000	\$2,923,539	\$5,076,461	Current
Baylin <sup>2,4</sup>	N/A	\$30,000,000	\$10,963,272	\$19,036,728	Current
Data Communications <sup>2</sup>	N/A	\$12,000,000	\$4,385,309	\$7,614,691	Current
Persta <sup>2</sup>	N/A	\$20,000,000	\$7,308,848	\$12,691,152	Current
<b>Long-Term Financing transactions</b>					
PenEquity <sup>2</sup>	\$25,000,000	\$25,000,000	\$25,000,000	Nil	Current
Mill Street <sup>3</sup>	N/A	\$10,000,000	\$10,000,000	Nil	Current
WireE <sup>2,5</sup>	N/A	Nil	Nil	Nil	Current

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 June 30, 2018 condensed consolidated interim financial statements. The pro rata portions held by co-investors, if any, are excluded. (2) As at June 30, 2018, the loan component of this investment is carried at amortized cost. (3) As at June 30, 2018, the loan component of this investment is carried at FVTPL. (4) The total size of the Baylin loan was \$33 million of which \$3 million was syndicated in equal parts to two third parties. (5) As at June 30, 2018, no advances had been made to WireE.

Following the adoption of IFRS 9 effective January 1, 2018, the Corporation measures some of its debt investments at amortized cost and others at fair value through profit and loss ("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. For periods prior to January 1, 2018, all investments were measured at FVTPL.

In addition to the above loans, at June 30, 2018, CCF IV LP held ownership interests in 450,000 Medicare common share purchase warrants, 116,059 Source common shares, 37,500,000 Marquee common share purchase warrants, 620,456 Baylin common share purchase warrants, 960,000 Data Communications common share purchase warrants, 8,000,000 million Persta common share purchase warrants, warrants to acquire common shares of Ferus and Wire IE at nominal cost, a 50% common equity stake in RBee with nominal fair value and a royalty agreement with a maturity date of October 31, 2022 entitling it to payment of 1% of Touchstone's gross revenue from production.

### ***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</b>  <b>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 if a default were to occur. An increasing risk rating implies that one or both 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. Crown generally expects the risk rating of a loan to improve over time as the borrower increases in value and pays down debt. As well, Crown expects the portfolio risk rating to improve over time as the proportion of seasoned loans increases.

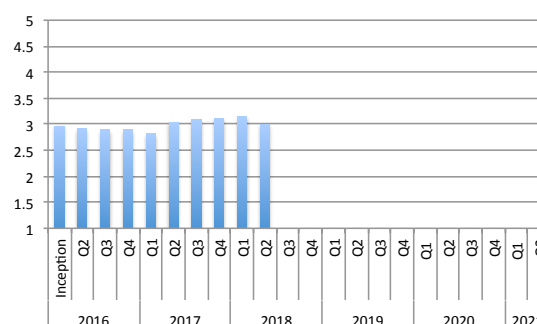
### ***Portfolio Company Updates***

The following tables set forth certain summary information in respect of loans held by Crown as at June 30, 2018. The information contained in the rows entitled "Business Description" and "Business Overview" has been developed from information provided by the applicable borrower. See "Forward-Looking Statements", "Market and Industry Data" and "Risk Factors".

## Special Situations Financings

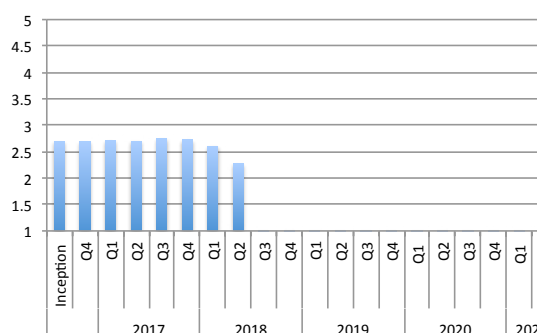
Bill Gosling Outsourcing Holding Corp.	
<b>Business Description:</b>	Founded in 1955 and headquartered in Newmarket, Ontario, BGO is a privately-owned global provider of call center solutions to blue chip and emerging high-growth clients. It operates eight offices in Canada, the U.S., the U.K. and the Philippines and employs approximately 2,000 full time equivalents.
<b>Business Overview:</b>	BGO provides outsourced call centre services including customer sales and acquisition, customer care, accounts receivable management and business process outsourcing. BGO designs specific customer engagement programs for its clients to improve customer experience. CCF IV LP advanced a \$15 million term loan on May 25, 2016 to fund a refinancing.
<b>Industry:</b>	Business Process Outsourcing
<b>Capital Investment:</b>	\$15 million
<b>Investment Date:</b>	May 25, 2016
<b>Term:</b>	60 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Share of increase in enterprise value from date of loan to repayment

Loan Risk Rating



Touchstone Exploration Inc.	
<b>Business Description:</b>	Headquartered in Calgary, Alberta, Touchstone (TSX:TXP) is a publicly-traded company engaged in the exploration, development, and production of petroleum and natural gas. Touchstone's primary focus is onshore properties located in the Republic of Trinidad and Tobago including over 95,000 gross acres of exploration and development rights.
<b>Business Overview:</b>	Touchstone reported net revenue of \$7.8 million and EBITDA of \$3.4 million for the three months ending March 31, 2018. On a trailing twelve-month basis ending March 31, 2018, Touchstone reported revenue of \$26.1 million and EBITDA of \$7.4 million. For the three months ended March 31, 2018, Touchstone reported average oil production of 1,543 barrels per day at a realized price of US\$59.07 per barrel, an increase of 6.6% and 7.7%, respectively, compared to the prior quarter.
<b>Industry:</b>	Oil and Gas
<b>Capital Investment:</b>	\$15 million
<b>Investment Date:</b>	November 23, 2016
<b>Term:</b>	72 months (extended from 60)
<b>Interest Rate:</b>	8%
<b>Bonus / Participation:</b>	Royalty of 1% of gross revenue from production until October 31, 2022

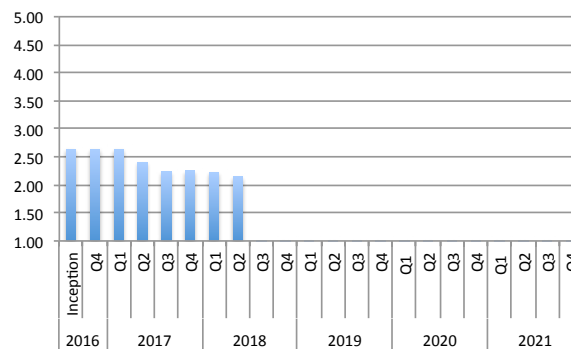
Loan Risk Rating



### Source Energy Services

<b>Business Description:</b>	Headquartered in Calgary, Alberta, Source (TSX: SHLE) is the leading provider of frac sand to the Western Canadian Sedimentary Basin. Source is vertically integrated, owning a sand mine in Wisconsin, seven transload terminals in Canada, and two transload terminals in the United States. On April 13, 2017, Source completed an initial public offering, raising gross proceeds of \$175 million.
<b>Business Overview:</b>	Source reported revenue of \$135.2 million and adjusted EBITDA of \$20.5 million for the three months ending March 31, 2018. On a trailing twelve-month basis ending March 31, 2018, Source reported revenue of \$330.4 million and adjusted EBITDA of \$56.9 million. On May 24, 2018, Source announced a \$50 million upsizing of its senior secured notes, along with an increase to its credit facilities from \$70 million to \$88 million, to provide growth capital. On July 9, 2018, Source announced sand volume of 814,000 metric tonnes for the three months ending June 30, 2018, bringing six-month year-to-date volume to 1,456,000 metric tonnes.
<b>Industry:</b>	Energy Services
<b>Capital Investment:</b>	\$12.4 million of Senior Secured First Lien Notes (original investment \$15 million)
<b>Investment Date:</b>	December 8, 2016
<b>Term:</b>	60 months
<b>Interest Rate:</b>	10.5%
<b>Bonus / Participation:</b>	116,059 common shares

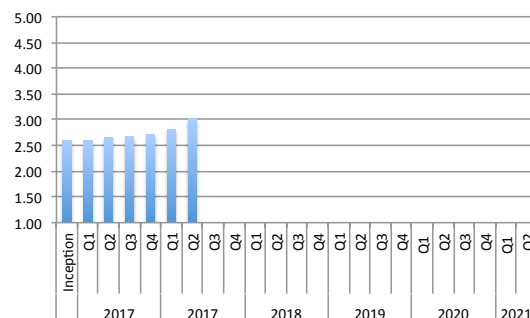
Loan Risk Rating



### Solo Liquor Holdings Limited

<b>Business Description:</b>	Solo is a Calgary, Alberta-based, privately-owned company engaged in the retail sale of liquor. As at June 30, 2018, Solo had 63 retail liquor stores operating in Alberta.
<b>Business Overview:</b>	Solo commenced operations in 1996 and has steadily built out its store network. It continues to grow and has plans to expand its store count to greater than 80 stores over the next two years. Solo has achieved commercial success by opening stores in high traffic areas, offering a wide range of products, operating with extended hours and maintaining every day low prices.
<b>Industry:</b>	Retail
<b>Capital Investment:</b>	\$15 million
<b>Investment Date:</b>	February 24, 2017
<b>Term:</b>	36 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Share of increase in enterprise value from date of loan to repayment

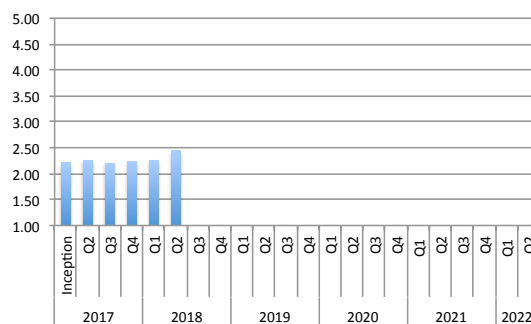
Loan Risk Rating



### Marquee Energy Ltd.

<b>Business Description:</b>	Headquartered in Calgary, Alberta, Marquee (TSXV:MQX) is a publicly traded company engaged in acquiring interests in petroleum and natural gas rights, and the exploration, development, production and sale of petroleum and natural gas. Marquee's core operation is located in Alberta's Michichi area, which contributes approximately 90% of corporate production.
<b>Business Overview:</b>	Marquee reported net revenue of \$6.7 million and EBITDA of \$1.6 million for the three months ending March 31, 2018. On a trailing twelve-month basis ending March 31, 2018, Marquee reported net revenue of \$30.6 million and EBITDA of \$7.9 million. For the three months ended March 31, 2018, production averaged 2,768 boe/d, a decrease from 2,874 boe/d in the prior quarter, consisting of approximately 52% of oil and liquids.
<b>Industry:</b>	Oil and Gas
<b>Capital Investment:</b>	\$30 million
<b>Investment Date:</b>	May 30, 2017
<b>Term:</b>	60 months
<b>Interest Rate:</b>	10%
<b>Bonus / Participation:</b>	37,500,000 common share purchase warrants

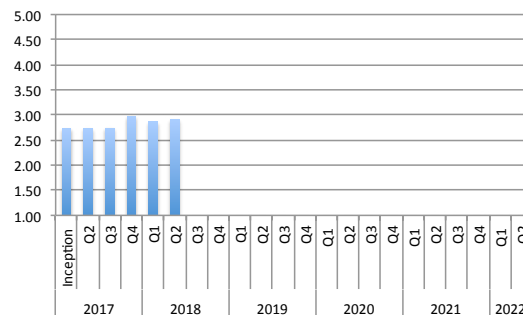
**Loan Risk Rating**



### 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 with an approximate market share of 50% in the Montney resource play. 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.
<b>Business Overview:</b>	Energized hydraulic fracturing involves the use of cryogenic products (N2 and CO2) to increase energy content and reduce water use in well fracturing. The benefits of energized fracking include superior hydrocarbon recovery, reduced chemical and water requirements and decreased water disposal costs. Energized fracturing is primarily used in low-pressure reservoirs, low permeability reservoirs and areas where water availability and disposal are problematic. Ferus' logistics fleet, consisting of approximately 55 tractors and 80 bulk transport trailers, is designed to meet the demanding off-road requirements of the oil and gas industry.
<b>Industry:</b>	Energy Services
<b>Capital Investment:</b>	\$25 million
<b>Investment Date:</b>	June 27, 2017
<b>Term:</b>	60 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Nominal cost share purchase warrants

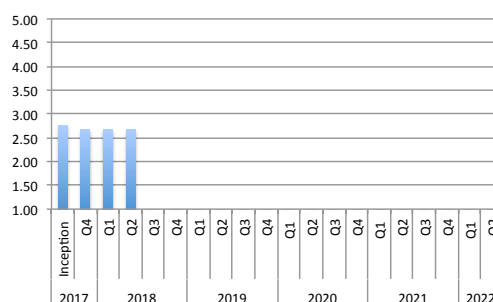
**Loan Risk Rating**



### RBee Aggregate Consulting Ltd.

<b>Business Description:</b>	Headquartered in Gibbons, Alberta, RBee has one of the largest mobile crushing fleets in Western Canada, producing roughly 5 million tonnes of crushed aggregate per year. 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 CCF IV LP (approximate interest in RBee of 46.3%) and a syndicate partner (approximate interest in RBee of 3.7%).
<b>Business Overview:</b>	RBee acquired the assets of Petrowest's Civil division effective November 1, 2017 for total consideration of \$29.5 million (including final closing adjustments), including the assumption of approximately \$18.8 million (CCF IV LP interest - \$17.4 million) of loans made by CCF IV LP and its syndicate partner with the balance funded by third-party bank debt.
<b>Industry:</b>	Diversified
<b>Capital Investment:</b>	\$17.4 million
<b>Investment Date:</b>	November 1, 2017
<b>Term:</b>	Payable on demand
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	46.3% common equity interest

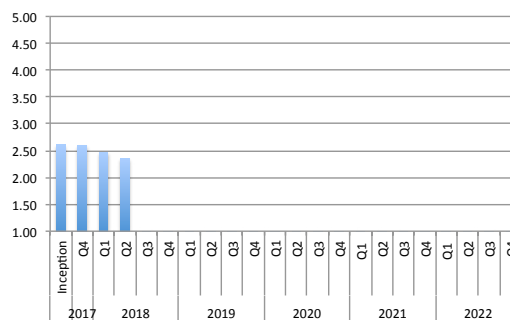
Loan Risk Rating



### 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.
<b>Business Overview:</b>	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. CCF IV LP advanced a \$7 million term loan on December 21, 2017 to fund a minority shareholder buyout by the CEO and majority shareholder.
<b>Industry:</b>	Manufacturing
<b>Capital Investment:</b>	\$7 million
<b>Investment Date:</b>	December 21, 2017
<b>Term:</b>	66 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Share of increase in enterprise value from date of loan to repayment

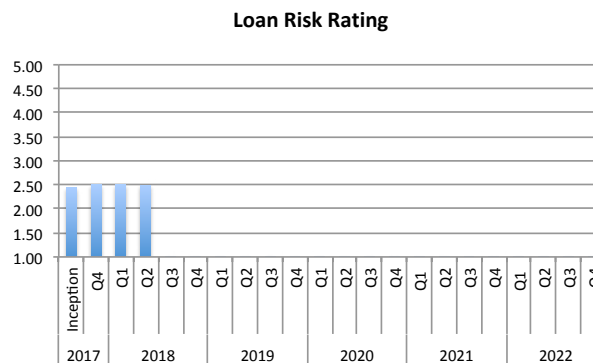
Loan Risk Rating





## Canadian Helicopters Limited

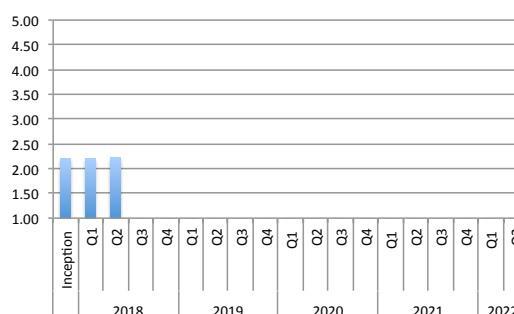
<b>Business Description:</b>	Headquartered in Montreal, Quebec, Canadian Helicopters is the largest helicopter transportation services company operating in Canada with a network of 25 strategically located bases capable of providing operations in every geographical region in Canada. Canadian Helicopters operates over 90 light, medium, and heavy lift helicopters and, in addition to charter services, provides flight training and helicopter repair & maintenance services.
<b>Business Overview:</b>	Canadian Helicopters provides helicopter transportation services to a diverse array of clients including onshore and offshore oil and gas, military support, mineral exploration, hydro/utilities, forest management, construction, air ambulance, and search & rescue. CCF IV LP advanced an \$8 million term loan on December 27, 2017 as partial funding of a management buyout led by the CEO of Canadian Helicopters.
<b>Industry:</b>	Transportation
<b>Capital Investment:</b>	\$8 million
<b>Investment Date:</b>	December 27, 2017
<b>Term:</b>	60 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Share of increase in enterprise value from date of loan to repayment



### Baylin Technologies Inc.

<b>Business Description:</b>	Headquartered in Toronto, Ontario, Baylin is a publicly traded (TSX:BYL) global technology company engaged in the research, development, manufacture and sale of a range of antennas and communications solutions for the mobile, networking and wireless infrastructure markets. Baylin offers a portfolio of leading off-the-shelf antenna products as well as custom engineered solutions to meet the specifications for its customers' mobile, networking and wireless infrastructure needs.
<b>Business Overview:</b>	On January 17, 2018 Crown announced the closing of a \$33.0 million term loan to Baylin, of which CCF IV LP advanced \$30.0 million and two of CCF IV LP's institutional limited partners advanced a total of \$3.0 million. Baylin used proceeds of this term loan to acquire the radio frequency, terrestrial microwave and antenna equipment divisions of Advantech Wireless Inc. and its affiliates ("Advantech"). On July 10, 2018 Baylin closed a \$40 million bought deal offering of subscription receipts and convertible debentures. The proceeds from the offering were partially used to acquire Alga Microwave Inc. ("Alga") for a purchase price of \$25 million. Alga is based in Quebec and is considered complimentary to the Advantech acquisition.
<b>Industry:</b>	Technology
<b>Capital Investment:</b>	\$30 million
<b>Investment Date:</b>	January 17, 2018
<b>Term:</b>	60 months
<b>Interest Rate:</b>	9%
<b>Bonus / Participation:</b>	620,456 warrants

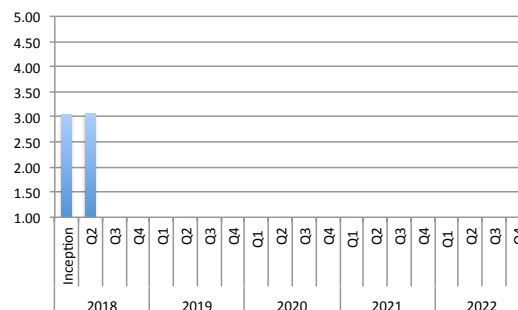
Loan Risk Rating



### Data Communications Management Corporation

<b>Business Description:</b>	Headquartered in Brampton, Ontario, Data Communications (TSX:DCM) 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.
<b>Business Overview:</b>	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. CCF IV LP advanced a \$12 million term loan on May 8, 2018 to refinance debt and fund the acquisition of Perennial Group, which specializes in marketing communications.
<b>Industry:</b>	Print & Marketing Services
<b>Capital Investment:</b>	\$12 million
<b>Investment Date:</b>	May 8, 2018
<b>Term:</b>	60 months
<b>Interest Rate:</b>	10%
<b>Bonus / Participation:</b>	960,000 warrants

Loan Risk Rating



## Persta Resources Inc.

<b>Business Description:</b>	Headquartered in Calgary, Alberta, Persta is a publicly listed (HKEX: stock code 3395) company engaged in the business of acquiring interests in petroleum and natural gas rights, and in the exploration, development, production and sale of petroleum and natural gas. 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>Business Overview:</b>	Persta has grown production organically from nil in 2008 to a peak production of 4,200 boepd in late 2016. Persta's has been restricting production over the past twelve months due to low realized natural gas prices and has been producing at volumes primarily covered by existing natural gas price hedging contracts. Persta holds approximately 120,000 net acres of land and has 100% working interests in its natural gas and oil assets.
<b>Industry:</b>	Oil and Gas
<b>Capital Investment:</b>	\$20 million <sup>1</sup>
<b>Investment Date:</b>	May 15, 2018
<b>Term:</b>	60 months
<b>Interest Rate:</b>	12%
<b>Bonus / Participation:</b>	8,000,000 warrants

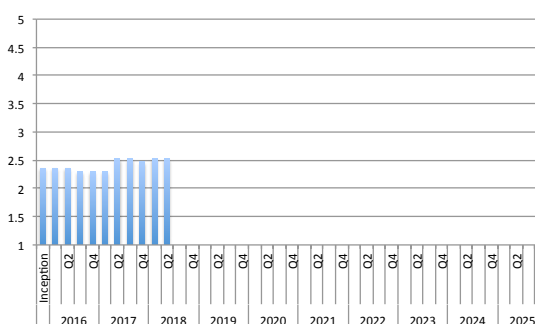


Note 1: CCF IV LP's total commitment to Persta is \$25 million, of which \$20 million had been advanced as at June 30, 2018.

## Long-Term Financing

PenEquity Realty Corporation	
<b>Business Description:</b>	Founded in 1984 and 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. Over the past three decades, PenEquity completed over 23 development projects. PenEquity has established strong relationships with partners and key tenants and has been successful in attracting large, high-quality, financially-stable tenants.
<b>Business Overview:</b>	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. The Barrie projects continue to progress towards final completion. Stoney Creek construction commenced in the second quarter of 2017 and London pre-construction leasing is underway.
<b>Industry:</b>	Real Estate Development
<b>Capital Investment:</b>	\$25 million
<b>Investment Date:</b>	December 16, 2015
<b>Term:</b>	120 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	None

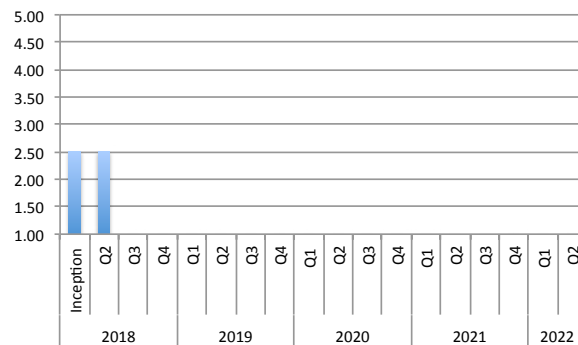
Loan Risk Rating



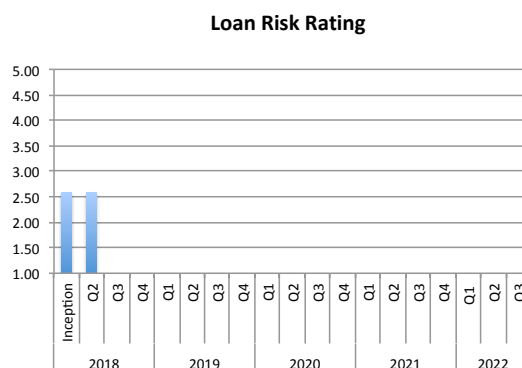
## Mill Street & Co. Inc.

<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 four industry platforms: construction services, building supply, wholesale & logistics, and financial services. Mill Street was founded in 2013.
<b>Business Overview:</b>	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 will regularly structure transactions resulting in vendors retaining equity positions of approximately 20%, which serves to keep them engaged in their businesses post-acquisition to ensure successful transitions.
<b>Industry:</b>	Diversified
<b>Capital Investment:</b>	\$10 million
<b>Investment Date:</b>	May 16, 2018
<b>Term:</b>	120 months
<b>Interest Rate:</b>	5-year Govt. of Canada yield plus 10% (12% minimum)
<b>Bonus / Participation:</b>	Share of increase in equity value from date of loan to repayment

**Loan Risk Rating**



WireIE (Canada) Inc.	
<b>Business Description:</b>	Headquartered in Richmond Hill, Ontario, WireIE is a telecom infrastructure company that specializes in the deployment and management of carrier-grade telecom services across Canada, and internationally, to under-served communities in rural and remote areas. WireIE builds, owns, and operates data networks for its blue chip customers in the telecom carrier, oil and gas, utility, and government industries. Individual network circuits are contracted to customers for between one to four years with contracts structured to provide fixed monthly payments.
<b>Business Overview:</b>	WireIE was founded in 2007 and has grown exponentially over the last five years, driven by higher connectivity requirements for individuals and businesses worldwide. Since inception, WireIE has developed 160,000 miles of network interfacing for under-served markets, providing end users with secure, high quality reliable networks typically found only in densely populated areas with existing infrastructure.
<b>Industry:</b>	Telecom Infrastructure
<b>Capital Investment:</b>	\$nil <sup>1</sup>
<b>Investment Date:</b>	May 23, 2018
<b>Term:</b>	120 months
<b>Interest Rate:</b>	Not disclosed
<b>Bonus / Participation:</b>	Share of increase in enterprise value from date of loan to repayment



Note 1: Crown's total commitment to WireIE is \$10 million, of which \$nil had been advanced as at June 30, 2018.

All of the above loans, except the Touchstone, RBee, Mill Street and WireIE loans, are payable by way of a single payment due at the end of the term. Principal payments on the Touchstone loan commence on January 1, 2020 in the amount of \$810,000 per quarter. The RBee loan is payable upon demand. Principal payments on the Mill Street loan commence on May 1, 2023 in the amount of \$100,000 per month. Principal payments on the WireIE loan will be payable monthly and will be variable based on the levels of residual cash flow, after deducting certain operating costs in respect of underlying customer contracts and interest payments in respect of the loan, generated by underlying customer contracts.

## Outlook

Management continues to place a high priority on new originations of Special Situations Financing and, beginning in June 2018, on building out assets in Crown Power Fund. As the Corporation's capital is being focused primarily on investment in these two areas, it intends to place less emphasis on sourcing Long-Term Financing transactions. Market conditions for deploying capital in Crown's market segment are currently favorable and the pipeline of potential transactions is strong.

Crown is focused on a segment of the market (successful businesses in the mid-market) where there is an ongoing funding gap. This gap is more pronounced during periods in the cycle when many traditional capital providers pull back. As Crown continues to execute its plan and to deploy capital in new originations, it expects to generate growing cash flow and build long-term value for Shareholders.

Considering the Corporation's working capital, the \$11.5 million of committed capital available to CCF IV LP from parties other than Crown, and the Credit Facility, at June 30, 2018, the Corporation had access to up to approximately \$54.9 million for additional portfolio investments. Effective July 1, 2018, following the subscription for additional Units of CCF IV LP, the level of committed capital available to CCF IV LP from parties other than Crown increased to \$58.6 million and the total level of capital available for additional portfolio investments increased to \$102.0 million.

## Quarterly Results Summary

The following table provides selected quarterly information about the Corporation's financial condition and performance for the period from July 1, 2016 to June 30, 2018.

Quarterly Results Summary (In \$000s except per share amounts and number of shares)	Three Months Ended							
	June 30 2018 <sup>1</sup>	March 31 2018 <sup>1</sup>	December 31 2017	September 30 2017	June 30 2017	March 31 2017	December 31 2016	September 30 2016
Revenue:								
Interest revenue	\$ 6,274	\$ 5,563	\$ 5,487	\$ 4,816	\$ 5,623	\$ 4,385	\$ 3,589	\$ 2,968
Fees and other income	1,636	199	1,888	141	3,080	526	2,225	160
Performance fee distributions	-	-	-	-	1,044	-	-	-
Net realized gain/(loss) on sale of investments	222	-	1,144	(1,086)	2,733	553	-	-
Net change in unrealized gains in fair value of investments	902	(458)	417	1,731	(4,765)	1,292	(397)	(255)
Total revenue	\$ 9,034	\$ 5,304	\$ 8,936	\$ 5,602	\$ 7,715	\$ 6,756	\$ 5,417	\$ 2,873
Total comprehensive income, net of non-controlling interests	\$ 1,970	\$ 900	\$ 2,112	\$ 1,113	\$ 1,767	\$ 1,744	\$ 877	\$ 833
Weighted average shares outstanding - basic	9,467,790	9,496,786	9,520,611	9,538,188	9,519,598	9,521,354	9,504,362	9,514,921
Total comprehensive income per share - basic	\$ 0.21	\$ 0.09	\$ 0.22	\$ 0.12	\$ 0.19	\$ 0.18	\$ 0.09	\$ 0.09
Weighted average shares outstanding - diluted	9,839,266	9,858,898	9,837,088	9,848,924	9,853,463	9,839,188	9,674,272	9,803,951
Total comprehensive income per share - diluted	\$ 0.20	\$ 0.09	\$ 0.21	\$ 0.11	\$ 0.18	\$ 0.18	\$ 0.09	\$ 0.08
Investments	\$ 242,954	\$ 208,289	\$ 181,302	\$ 194,742	\$ 194,096	\$ 172,180	\$ 158,951	\$ 99,410
Total assets	\$ 277,686	\$ 225,159	\$ 229,050	\$ 216,284	\$ 222,445	\$ 198,964	\$ 182,375	\$ 151,569
Total equity	\$ 104,314	\$ 103,166	\$ 104,449	\$ 103,492	\$ 103,376	\$ 102,412	\$ 101,519	\$ 101,345
Shares outstanding at the end of the period	9,461,372	9,484,167	9,510,017	9,540,575	9,517,432	9,523,590	9,514,759	9,519,071
Total equity per share - basic	\$ 11.03	\$ 10.88	\$ 10.98	\$ 10.85	\$ 10.86	\$ 10.75	\$ 10.67	\$ 10.65
1. Results as at and for these periods 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 prior periods which were not restated.								

A range of factors impact quarterly variances. Major factors affecting quarterly variances in fees and other income include new investment transactions, amendments to investment agreements, loan prepayments completed in a quarter and the adoption of IFRS 9 on January 1, 2018. The main factors affecting quarterly variances in interest revenue are completion of new investment transactions and loan repayments in a quarter. Factors affecting realized and unrealized gains and losses include changes in the fair value of loan investments caused by variations in benchmark interest rates and/or the credit status of portfolio companies as well as variations in market prices for 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 from non-controlling interests impact total comprehensive income, net of non-controlling interest.

## Discussion of Operations

### Revenues

Revenues of \$9.0 million and \$14.3 million were recognized in the three and six months ended June 30, 2018, respectively (2017 – \$7.7 million and \$14.5 million, respectively). Revenues for the three months ended June 30, 2018 were higher than the same period in the prior year due to both higher net gains on investments and higher interest revenue, with higher interest revenue earned by each of CCF IV LP and Crown Private Credit Fund resulting from a higher level of investment more than offsetting the elimination of revenues from NCOF II, partially offset by a reduced level of fee income recognition following the adoption of IFRS 9 and a performance fee distribution of \$1.0 million recognized in the three months ended June 30, 2017. Revenues for the six months ended June 30, 2018 were relatively consistent with the same period in the prior year.

### Fees and Other Income

Fees and other income in the three and six months ended June 30, 2018 were \$1.6 million and \$1.8 million, respectively (2017 - \$3.1 million and \$3.6 million, respectively). The following table provides an overview of the total fees and other income attributable to Shareholders and non-controlling interests.

Fees and Other Income (In \$000s)	Three Months Ended June 30,		Six Months Ended June 30,		Attributable to:					
					Shareholders			Non-controlling interests		
	2018	2017	2018	2017	Three Months 2018	Six Months 2018		Three Months 2018	Six Months 2018	
Transaction fees and other income:										
Special Situations Financing:										
Transaction fees - Crown <sup>1</sup>	\$ -	\$ 662	\$ 30	\$ 812	\$ -	\$ 30	100.00%	\$ -	\$ -	0.00%
Transaction fees for new loans - CCF IV LP <sup>1</sup>	-	1,825	-	1,975	-	-	36.54%	-	-	63.46%
Other income - CCF IV LP	1,243	374	1,335	421	454	488	36.54%	789	847	63.46%
Other income - NCOF II	-	86	-	175	-	-	N/A	-	-	N/A
Subtotal	1,243	2,947	1,365	3,383	454	518		789	847	
Long-Term Financing:										
Transaction fees - Crown Private Credit Fund	300	-	300	-	300	300	100.00%	-	-	0.00%
Total transaction fees and other income	1,543	2,947	1,665	3,383	754	818		789	847	
Other interest income <sup>2</sup>	61	39	105	72	61	105	100.00%	-	-	0.00%
Management fee revenue <sup>3</sup>	32	94	65	151	32	65	100.00%	-	-	0.00%
Total fees and other income	\$ 1,636	\$ 3,080	\$ 1,835	\$ 3,606	\$ 847	\$ 988		\$ 789	\$ 847	

1. Transaction fees received by Crown on new loans completed by CCF IV LP in the three and six months ended June 30, 2018 totaled \$740 and \$1,485, respectively, (June 30, 2017 - \$2,787 and \$3,087, respectively), of which \$370 and \$700, respectively, is attributable to Shareholders as syndication and management fees and \$135 and \$287 is attributable to Shareholders as a result of Crown's interest in CCF IV LP. Of total transaction fees received in the three and six months ended June 30, 2018, \$890 and \$1,605, respectively, related to investments carried at amortized cost, which were deferred and not recognized as fee income in the period.

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 NCOF II and CCF IV LP, which are eliminated on consolidation. Management fees charged to NCOF II and CCF IV LP in the three and six months ended June 30, 2018 were \$660 and \$1,269, respectively (June 30, 2017 - \$666 and \$1,160, respectively). For the three and six months ended June 30, 2018, management fees charged on the portion of contributed capital from non-controlling interests were \$419 and \$805, respectively (June 30, 2017 - \$362 and \$654, respectively).

The Corporation may receive transaction fees 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. For the three and six months ended June 30, 2018, transaction fees and other income totaled \$1.5 million and \$1.7 million, respectively (2017 - \$3.0 million and \$3.4 million, respectively). Transaction fees and other income were lower in the three and six months ended June 30, 2018 due to the adoption of IFRS 9, which requires deferring transaction fees on 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 the three and six months ended June 30, 2018, the Corporation received transaction fees totaling \$0.9 million and \$1.6, respectively, in relation to loans carried at



amortized cost, of which \$nil and \$30,000, respectively, was recognized as fee income in the periods. In the three months ended June 30, 2018, the Corporation earned \$1.0 million of fees and other income in relation to the repayment of the Petrowest loan.

The Corporation earns investment management fees pursuant to management agreements. The base annual management fees are generally equal to 1.75% of invested capital, as defined in the limited partnership agreements, less any capital distributions and realized losses; however, Crown provides certain limited partners with management fee discounts and Crown may voluntarily reduce its management fees.

On consolidation, 100% of management fees earned from CCF IV LP are eliminated against the management fees expensed by CCF IV LP. The non-controlling interests of CCF IV LP incur approximately 63.5% (50% prior to July 1, 2016, 60% from July 1, 2016 to December 31, 2016, 65% from January 1, 2017 to June 30, 2017) of the management fees while Crown effectively pays itself for the other approximately 36.5% as a result of its ownership interests. Prior to the dissolution of NCOF II effective June 30, 2017, 100% of the management fees earned from NCOF II had similarly been eliminated against the management fees expensed by NCOF II. (See also Related Party Transactions)

Management fees of \$32,375 and \$64,750 were recognized in the three and six months ended June 30, 2018, respectively, from NCOF LP (2017 - \$93,578 and \$151,325, respectively, from NCOF LP and NCOF II Parallel). The elimination of management fees from NCOF II Parallel subsequent to its dissolution was responsible for the decline in total management fees in the three and six months ended June 30, 2018 compared with the prior year.

Other interest income includes interest earned from savings accounts and such investments as short-term investment certificates, and includes interest earned from share purchase loans. These amounts are included in fees and other income. For the three and six months ended June 30, 2018, other interest income totaled \$61,123 and \$104,729, respectively (2017 - \$38,510 and \$71,748, respectively). Of this interest, 100% is attributable to Shareholders. Other interest income increased in the three and six months ended June 30, 2018 due to a higher average level of share purchase loans.

### Interest Revenue

The following table provides an overview of interest revenue attributable to Shareholders and the non-controlling interests.

Interest Revenue  (In \$000s)	Three Months Ended June 30,		Six Months Ended June 30,		Attributable to:					
					Shareholders			Non-controlling interests		
	2018	2017	2018	2017	Three Months 2018	Six Months 2018		Three Months 2018	Six Months 2018	
Special Situations Financing:										
NCOF II	\$ -	\$ 1,117	\$ -	\$ 1,660	\$ -	\$ -	N/A	\$ -	\$ -	N/A
CCF IV LP	5,224	3,633	9,913	6,611	1,909	3,622	36.54%	3,315	6,291	63.46%
Long-term Financing:										
Crown Private Credit Fund	1,050	873	1,924	1,737	1,050	1,924	100.00%	-	-	0.00%
Total interest revenue	\$ 6,274	\$ 5,623	\$ 11,837	\$ 10,008	\$ 2,959	\$ 5,546		\$ 3,315	\$ 6,291	

Interest revenue in the three and six months ended June 30, 2018 was \$6.3 million and \$11.8 million, respectively (2017 - \$5.6 million and \$10.0 million, respectively). Interest revenue increased in the three and six months ended June 30, 2018 primarily due to interest earned on additional investments made by CCF IV LP, partially offset by lower interest earned from NCOF II resulting from the repayment of investments. Following the adoption of IFRS 9 effective January 1, 2018, interest revenue on loan investments carried at amortized cost is calculated using the effective interest rate method and includes an amortization component which totaled \$0.4 million and \$0.7 million, respectively, in the three and six months ended June 30, 2018.

### Net Gain on Investments

The net gain on investments includes both net realized gains (losses) from investments and the net change in unrealized gains in the fair value of investments. Additional details are provided in the table below.

Net Gain / (Loss) on Investments (In \$000s)	Three Months Ended June 30,		Six Months Ended June 30,		Attributable to:					
					Shareholders			Non-controlling interests		
	2018	2017	2018	2017	Three Months 2018	Six Months 2018		Three Months 2018	Six Months 2018	
Realized gains (losses):										
Special Situations Financing:										
NCOF II - realized gains	\$ -	\$ 1,323	\$ -	\$ 1,876	\$ -	\$ -	N/A	\$ -	\$ -	N/A
CCF IV LP - realized gains	222	1,410	222	1,410	81	81	36.54%	141	141	
sub-total - realized gains	222	2,733	222	3,286	81	81		141	141	
Unrealized gains (losses):										
Special Situations Financing:										
NCOF II - unrealized gains / (losses)	-	(1,686)	-	(1,988)	-	-	N/A	-	-	N/A
CCF IV LP - unrealized gains / (lossees)	818	(3,046)	360	(1,808)	299	132	36.54%	519	228	63.46%
Long-term Financing:										
Crown Private Credit Fund - unrealized gain / (loss)	84	(33)	84	323	84	84	100.00%	-	-	0.00%
sub-total - unrealized gains / (losses)	902	(4,765)	444	(3,473)	383	216		519	228	
Total net gains / (losses) on investments	\$ 1,124	\$ (2,032)	\$ 666	\$ (187)	\$ 464	\$ 297		\$ 660	\$ 369	

The Corporation's net gain/(loss) on investments in the three and six months ended June 30, 2018 totaled \$1.1 million and \$0.7 million, respectively (2017 – \$(2.0) million and \$(0.2) million, respectively). For the three and six months ended June 30, 2018, \$0.5 million and \$0.3 million, respectively, was attributable to Shareholders and \$0.7 million and \$0.4 million, respectively, to non-controlling interests.

A realized gain of \$0.2 million was recognized in the three months ended June 30, 2018 (2017 – \$2.7 million) upon final repayment of the Petrowest loan.

The net change in unrealized gains in fair value of investments for the three and six months ended June 30, 2018 was \$0.9 million and \$0.4 million, respectively (2017 - \$(4.8) million and \$(3.5) million, respectively). The most significant contributors to the net change in unrealized gains in the three months ended June 30 2018 were a net gain on the Touchstone royalty as a result of extending the terms of the royalty agreements by one year, a decrease in the fair value of the Baylin warrants, and modest increases in the fair value of several loans carried at FVTPL. Following the January 1, 2018 adoption of IFRS 9, unrealized gains/(losses) are no longer recognized in relation to investments carried at amortized cost.

## ***Expenses***

Expenses in the three and six months ended June 30, 2018 totaled \$2.5 million and \$4.4 million, respectively (2017 - \$3.0 million and \$4.7 million, respectively). Operating costs are primarily fixed with the largest cost being employee compensation, including share-based compensation, amounts accrued for annual employee bonuses and accruals for performance bonus expense.

### Salaries, management fees and benefits

Salaries, management fees and benefits expense totaled \$0.8 million and \$1.5 million in the three and six months ended June 30, 2018 (2017 - \$0.9 million and \$1.4 million, respectively). The changes in salaries, management fees and benefits expenses in the three and six months ended June 30, 2018 compared to the same periods in 2017 were due primarily to the timing and level of accrual for annual employee bonuses as well as to an increase in the number of employees.

### Share-based Compensation

Share-based compensation expense is recognized over the expected vesting period of each award. Share-based compensation totaled \$0.5 million and \$1.0 million in the three and six months ended June 30, 2018 (2017 - \$0.4 million and \$0.8 million, respectively), slightly higher than the amounts expensed in the same period in the prior year due primarily to a higher number of outstanding Share Units.

### General and Administration

General and administration expenses totaled \$0.6 million and \$1.0 million, respectively, in the three and six months ended June 30, 2018 (2017 – \$0.4 million and \$0.8 million, respectively). 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 in the three and six months ended June 30, 2018 included \$0.2 million of start-up costs related to the formation of Crown Power Fund, without which general and administration expenses in each of these periods were comparable in aggregate and by expense type to the comparable prior year periods.

### Performance Bonus Expense

The Corporation has asset performance bonus pool (“**APBP**”) arrangements for certain employees (“**APBP Participants**”). For certain investment funds managed by the Corporation, 20% of investment returns in excess of a preferred rate of return earned by the fund accrue to the Corporation as performance fee distributions.

Allocation of the participation rights of the APBP relating to CCF IV LP commenced in 2015 and will continue until 2022 with 50% of performance fees recognized by the funds allocated to employees. Performance bonus amounts will be paid to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners in the related investment funds.

For the three and six months ended June 30, 2018, Crown accrued performance bonus expense of \$0.3 million and \$0.4 million (2017 – \$1.2 million and \$1.4 million, respectively, including a \$0.8 million

expense that had been recognized in conjunction with a \$1.0 million performance fee distribution from NCOF II (Parallel) in the three months ended June 30, 2017).

#### Provision for Credit Losses

For debt investments carried at amortized cost, the Corporation determines loan-specific 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 loans. The provision for credit losses primarily reflects changes in the allowance for credit losses resulting from factors such as the addition or repayment of loans carried at amortized cost or revisions to the expected credit losses for existing loans carried at amortized cost. The provision for credit losses for the six months ended June 30, 2018 of \$55,921 relate to new loan investments carried at amortized cost.

#### Finance Costs

Finance costs totaled \$0.3 million and \$0.5 million, respectively, for the three and six months ended June 30, 2018 (2017 - \$0.1 million and \$0.3 million, respectively), including standby fees, the amortization of deferred financing costs related to the Corporation's Credit Facility and Convertible Debentures, and current period interest accruals in relation to each of the Credit Facility and the Convertible Debentures. Interest expense in relation to the Convertible Debentures, which are measured at amortized cost, is determined using the effective interest rate method. Finance costs were higher in the three and six months ended June 30, 2018 compared with the prior year due to higher average outstanding balances for each of the Credit Facility, for which advances were provided to the Corporation for the first time during the three months ended June 30, 2018, and the Convertible Debentures, which were issued during the three months ended June 30, 2018.

#### ***Income Taxes***

For the three and six months ended June 30, 2018, Crown recorded current tax expense of \$0.7 million and \$1.1 million, respectively, (2017 – \$0.5 million and \$1.2 million, respectively) and deferred tax expense of \$0.1 million and \$0.3 million, respectively (2017 – \$0.3 million and \$0.3 million, respectively).

The Corporation's consolidated statutory tax rate for the three and six months ended June 30, 2018 on earnings before income taxes attributable to shareholders of the Corporation was 26.5%.

The deferred income tax asset at June 30, 2018 of \$0.6 million and deferred tax expenses for the three and months ended June 30, 2018 result primarily from financing costs associated with the IPO, the Credit Facility and the Convertible Debentures which are deductible for tax purposes over a five-year period and performance bonus expenses which are not deductible for tax purposes until they are paid in future periods.

#### ***Net Income and Comprehensive Income***

For the three and six months ended June 30, 2018, Crown earned net income and comprehensive income of \$5.7 million and \$8.6 million (2017 – \$4.0 million and \$8.3 million).

### ***Net Income and Comprehensive Income Attributable to Shareholders of the Corporation and Non-controlling Interests***

For the three and six months ended June 30, 2018, net income and comprehensive income attributable to Shareholders was \$2.0 million and \$2.9 million, respectively (2017 – \$1.8 million and \$3.5 million, respectively). Net income and comprehensive income attributable to non-controlling interests for the three and six months ended June 30, 2018 was \$3.7 million and \$5.7 million, respectively (2017 – \$2.2 million and \$4.8 million, respectively). Net income and comprehensive income attributable to non-controlling interests reflects the proportionate interest of non-controlling interests in the net income and comprehensive income of consolidated investment funds, and is net of contractual management fees on the capital of non-controlling interests for the three and six months ended June 30, 2018 of \$0.4 million and \$0.8 million, respectively (2017 - \$0.4 million and \$0.7 million, respectively), which the Shareholders are entitled to retain.

### **Adjusted EBIT**

Crown achieved Adjusted EBIT in the three and six months ended June 30, 2018 of \$3.6 million and \$5.6 million, respectively (2017 – \$3.0 million and \$6.1 million, respectively). Adjusted EBIT is calculated by Crown as earnings before financing costs, non-cash, share-based compensation and income taxes less net income attributable to non-controlling interests.

A reconciliation of earnings before income taxes to Adjusted EBIT for the three- and six-month periods ended June 30, 2018 and June 30, 2017 is shown in the following table:

Reconciliation of Earnings before Income Taxes to Adjusted EBIT (In \$000s)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Earnings before income taxes	\$ 6,486	\$ 4,735	\$ 9,937	\$ 9,786
Add: financing costs	344	141	479	288
Add: non-cash share-based compensation	420	402	878	745
Deduct: net income attributable to non-controlling interests	(3,680)	(2,200)	(5,713)	(4,750)
Adjusted EBIT	\$ 3,570	\$ 3,078	\$ 5,581	\$ 6,069

Compared with the comparable prior-year period, Adjusted EBIT in the three months ended June 30, 2018 was higher due primarily to a \$1.3 million increase in net gains from investments, partially offset by a lower level of fee income resulting from the deferral of certain finance fees following the adoption of IFRS 9, the absence of net performance fees earned in the prior year in relation to the NCOF Funds, and an increase in general and administration expenses related to the start up of Crown Power Fund.

Compared with the comparable prior-year period, Adjusted EBIT in the six months ended June 30, 2018 was lower due primarily to a lower level of fee income resulting from the deferral of certain finance fees following the adoption of IFRS 9, the absence of net performance fees earned in the prior year in relation to the NCOF Funds, and an increase in general and administration expenses related to the start up of Crown Power Fund, partially offset by higher interest revenue resulting from a higher level of capital invested in interest-generating loans.

The Corporation believes Adjusted EBIT is a useful supplemental measure that may assist investors in assessing the financial performance of the Corporation and the cash anticipated to be generated by Crown's business. Adjusted EBIT is not a measure of financial performance (nor does it have a standardized meaning) under IFRS. In evaluating this measure, investors should consider that the methodology applied in calculating this measure might differ among companies and analysts.

### **Liquidity and Capital Resources**

Cash and cash equivalents at June 30, 2018 totaled \$22.0 million (December 31, 2017 - \$41.1 million).

Accounts receivable at June 30, 2018 totaled \$3.7 million (December 31, 2017 - \$3.0 million) and was comprised primarily of interest receivable from investments and management fees receivable from NCOF LP.

Prepaid expenses and deposits at June 30, 2018 included deposits of \$4.6 million (December 31, 2017 - \$nil) advanced to suppliers and contractors of Crown Power Fund as partial funding of capital assets under development.

Accounts payable and accrued liabilities at June 30, 2018 of \$1.6 million (December 31, 2017 - \$1.5 million) included accrued annual employee bonuses, due diligence deposits from prospective borrowers, accrued employee salaries, accrued loan interest and standby fees and normal-course amounts due to suppliers.

Distributions payable to non-controlling interests at June 30, 2018 totaled \$6.4 million, higher than \$2.0 million at December 31, 2017 as the June 30, 2018 distribution from CCF IV LP included both a return of capital and a special distribution of other excess capital of CCF IV LP, in addition to a regular quarterly distribution, prior to the issuance of additional Units effective July 1, 2018.

The provision for performance bonus at June 30, 2018 totaled \$2.0 million, \$0.7 million lower than \$2.7 million as at December 31, 2017 due to the payment to APBP Participants of \$1.0 million in relation to the NCOF Funds that had previously been accrued.

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 interest, income taxes payable, director deferred share units and the portion of the provision for performance bonus that is payable within one year of the reporting date. Working capital at June 30, 2018 was \$22.4 million compared with \$39.7 million as at December 31, 2017, with the reduction during the period related primarily to a \$19.1 million reduction in cash and cash equivalents and a \$4.6 million increase in prepaid expenses and deposits, net of a \$4.4 million increase in distributions payable to non-controlling interest.

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.

As at June 30, 2018 Crown's aggregate unfunded commitment to CCF IV LP and CCF IV Investment totaled \$6.6 million. As at June 30, 2018, the Corporation had sufficient liquidity to fund its commitment to CCF IV LP and CCF IV Investment.

At June 30, 2018, \$131.3 million (92%) of the \$142.8 million committed to CCF IV LP to that date by limited partners other than Crown had been drawn by CCF IV LP, leaving \$11.5 million of committed capital available to CCF IV LP from parties other than Crown. As at June 30, 2018, CCF IV LP had a maximum size of \$300.0 million, which was increased to \$500.0 million effective July 1, 2018, with additional closings expected to occur prior to December 2019 as opportunities are identified to fund Special Situations Financing transactions and subscriptions in CCF IV LP are received. Also effective July 1, 2018, CCF IV LP received subscriptions for 45,910 additional Units from parties other than Crown, raising the level of committed capital available to CCF IV LP from parties other than Crown to \$58.6 million.

As at June 30, 2018, the Corporation, through Crown Power Fund, had committed to contracts valued at \$7.3 million in relation to the construction of power generation assets, of which \$4.6 million had been advanced as deposits to suppliers and contractors, resulting in an unfunded commitment of approximately \$2.6 million. None of the Corporation's \$10 million funding commitment to WireIE had been advanced as at June 30, 2018, resulting in an unfunded commitment of \$10 million at that date. Of CCF IV LP's \$25 million funding commitment to Persta, \$20 million had been advanced as at June 30, 2018, resulting in an unfunded commitment of \$5 million as at that date, of which \$3.2 million was attributable to non-controlling interests.

Effective June 1, 2018, Crown entered into a five-year office lease expiring on May 31, 2023 with an annualized lease payment obligation of approximately \$0.1 million and an aggregate lease payment obligation over the term of the lease of \$0.6 million, of which \$0.6 million represented an unfunded commitment as at June 30, 2018.

On December 30, 2016, Crown entered into an agreement for a \$35.0 million, 36-month, renewable senior secured revolving credit facility with Alberta Treasury Branches and Business Development Bank of Canada which is intended to be used primarily to fund the Corporation's capital commitments to Crown Partners Fund and to fund Long-Term Financings. The balance outstanding on the Credit Facility at June 30, 2018 was \$14.0 million.

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, with a maturity date of June 30, 2023 and a conversion price of \$13.70 per Common Share. 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.

Considering the Corporation's working capital, the \$11.5 million of committed capital available to CCF IV LP from parties other than Crown, and the Credit Facility, at June 30, 2018, the Corporation had access to up to approximately \$54.9 million for additional portfolio investments. Effective July 1, 2018, following the subscription for additional Units of CCF IV LP, the level of committed capital available to CCF IV LP from parties other than Crown increased to \$58.6 million and the total level of capital available for additional portfolio investments increased to \$102.0 million.

## Investments

As at June 30, 2018, the Corporation held investments in 15 Canadian companies carried at an aggregate value of \$243.0 million (December 31, 2017 - \$181.3 million). Following the adoption of IFRS 9 effective January 1, 2018, 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 June 30, 2018, the Corporation held debt securities in 8 Canadian companies carried at amortized cost with an aggregate carrying value of \$165.6 million, net of an allowance for credit losses of \$0.2 million. The fair value of these debt securities as at the reporting date was \$168.6 million.

As at June 30, 2018, the Corporation held debt securities in 6 Canadian companies carried at FVTPL with an aggregate carrying value of \$68.5 million. The carrying value of other investments carried at FVTPL, including equity securities, as at June 30, 2018 was \$8.8 million.

Additional information about investments can be found in Note 4, Financial instruments in the Corporation's condensed consolidated interim financial statements for the three and six months ended June 30, 2018.

## Provision for Performance Bonus

The provision for performance bonus in relation to the Corporation's obligations to APBP Participants at June 30, 2018 totaled \$2.0 million (December 31, 2017 - \$2.7 million) of which \$2.0 million (December 31, 2017 - \$1.7 million) represented the portion of performance fees related to CCF IV LP 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 CCF IV LP. The remaining \$1.0 million of the provision for performance bonus as at December 31, 2017 related to the NCOF Funds and was paid to APBP Participants during the three months ended March 31, 2018.

## Share Purchase Loans

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

As at June 30, 2018, \$2.9 million of these loans were outstanding (December 31, 2017 - \$2.2 million), including accrued interest of \$8,286. The loans under the Share Purchase Plan bear interest at Prime (3.45% as at June 30, 2018), have a seven-year term (maturity dates: June 3, 2024 and April 2, 2025) and are personally guaranteed by Participants. The shares are pledged as security for the loans and had a fair value of \$3.8 million as at June 30, 2018.



## **Non-Controlling Interests**

At June 30, 2018, non-controlling interests was \$131.0 million (December 31, 2017 - \$118.4 million). The increase compared to December 31, 2017 was due primarily to additional capital contributions to CCF IV LP by non-controlling interests to fund new investments, partially offset by the \$(0.9) million impact of the adoption of IFRS 9 on non-controlling interests as at January 1, 2018.

## **Share Capital**

As at June 30, 2018, total share capital was \$96.1 million (December 31, 2017 - \$96.6 million).

In the six months ended June 30, 2018, the Corporation issued 14,413 Common Shares to employees and directors as a result of vesting of Share Units. The total value assigned to the Common Shares issued was \$0.1 million and this amount was added to share capital.

On April 8, 2016, the Corporation commenced a normal course issuer bid (“NCIB”) to purchase for cancellation during the next 12 months up to 620,000 Common Shares representing approximately 10% of the public float of Common Shares and approximately 6.5% of the issued and outstanding Common Shares. Under this NCIB program, which expired on April 7, 2017, Crown repurchased and canceled 23,578 Common Shares at an average cost of \$9.17 per Common Share.

On April 10, 2017, the Corporation commenced an NCIB to purchase for cancellation during the next 12 months up to 310,000 Common Shares representing approximately 4.2% of the public float of Common Shares and approximately 3.3% of the issued and outstanding Common Shares. Under this NCIB program, which subsequently expired on April 9, 2018, Crown repurchased and cancelled 50,458 Common Shares in the six months ended June 30, 2018 at an average cost of \$9.60 per Common Share.

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, Crown repurchased and cancelled 12,600 Common Shares in the six months ended June 30, 2018 at an average cost of \$10.06 per Common Share.

The total number of Common Shares outstanding at June 30, 2018 was 9,461,372 (December 31, 2017 – 9,510,017; August 7, 2018 – 9,629,559).

## **Contributed Surplus**

At June 30, 2018 Crown’s contributed surplus of \$3.6 million included the opening balance at January 1, 2018 of \$2.9 million plus, for the six months ended June 30, 2018, \$1.0 million for 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 and \$0.1 million for cash-settled share-based compensation.

## Cash Flows

Cash and cash equivalents at June 30, 2018 totaled \$22.0 million (December 31, 2017 - \$41.1 million). In the six months ended June, 2018, the primary sources of cash flow for the Corporation were proceeds from the issuance of Convertible Debentures, advances in relation to the Credit Facility, non-controlling interest contributions to CCF IV LP to fund the investments in Baylin, Data Communications and Persta, proceeds from the repayment of the Petrowest loan (net of non-controlling interests' share) and net income and comprehensive income in addition to fee income earned and received in the period in relation to investments carried at amortized cost but not recognized as revenue in the period due to deferral through application of the effective interest rate method. Primary uses of cash included completion of the investments in Baylin, Data Communications and Persta, distributions to non-controlling interests, dividend payments to Shareholders and vendor deposits advanced by Crown Power Fund.

On August 7, 2018, the Corporation declared a quarterly dividend of \$0.15 per Common Share. The dividend will be paid on August 31, 2018 to Shareholders of record on August 17, 2018.

## Off-Balance Sheet Arrangements

As at June 30, 2018 the Corporation, through CCFC, had subscribed for 78,750 Units of CCF IV LP. This subscription included a commitment by Crown to provide up to \$78.8 million to CCF IV LP as funds are called by CCF IV LP to fund new Special Situations Financing transactions. As of June 30, 2018, the Corporation had contributed capital to CCF IV LP totaling \$72.4 million and was committed to provide up to an additional \$6.4 million to CCF IV LP. Effective July 1, 2018, the Corporation, through CCFC, subscribed for an additional 29,090 Units of CCF IV LP, raising to \$33.5 million its commitment to provide additional capital to CCF IV LP.

Through CCFC, the Corporation had also subscribed for 3,570 Units of CCF IV Investment LP. This subscription included a commitment by Crown to provide up to \$3.6 million to CCF IV Investment LP as funds are called by CCF IV Investment LP to fund its commitment to CCF IV LP. As of June 30, 2018, the Corporation had contributed capital to CCF IV Investment LP totaling \$3.3 million and was committed to provide up to an additional \$0.3 million to CCF IV Investment LP (July 1, 2018 - \$1.1 million).

As discussed in the *Liquidity and Capital Resources* section above, as at June 30, 2018 the Corporation had unfunded contractual commitments through Crown Power Fund of approximately \$2.6 million, \$10 million to WireIE and \$5 million to Persta, of which \$3.2 million was attributable to non-controlling interests. At June 30, 2018 the Corporation also had an unfunded commitment of \$0.6 million in relation to the remaining term of an office lease that will expire on May 31, 2023.

Crown has no other material off-balance sheet arrangements.

## Related Party Transactions

Pursuant to limited partnership agreements, Crown receives management fees for services provided from NCOF LP and, until its dissolution on June 30, 2017, NCOF II Parallel. During the three and six

months ended June 30, 2018, Crown earned management fees totaling \$32,375 and \$64,750, respectively (2017 - \$93,578 and \$151,325, respectively, from NCOF LP and NCOF II Parallel).

At June 30, 2018, accounts receivable included \$0.5 million due from NCOF LP (December 31, 2017 - \$0.4 million).

Pursuant to limited partnership agreements, CCF IV LP and, prior to its dissolution, NCOF II also pay management fees to Crown for management services provided. Management fees paid to Crown by CCF IV LP and, prior to its dissolution, NCOF II are eliminated on consolidation.

These transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

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 of the Corporation arising from the interests of non-controlling interests as a result of Crown's role as a fund manager and the financial statement captions through which these fees are reflected in net income and comprehensive income attributable to Shareholders.

Fees Earned From Related Parties (\$ in 000s)	Three Months Ended June 30,		Six Months Ended June 30,		Notes on Consolidation
	2018	2017	2018	2017	
Transaction fees - Crown	\$ 235	\$ 662	\$ 425	\$ 812	allocated from net income to income attributable to Shareholders
Management Fees charged to NCOF LP and NCOF II (Parallel)	32	94	65	151	included in Revenue - Fees and Other Income
Performance fees related to NCOF II (Parallel)	-	1,044	-	1,044	included in Revenue - Performance allocation fee
Performance fees related to non-controlling interest in CCF IV LP	595	362	711	592	allocated from net income to income attributable to Shareholders
Performance fees related to non-controlling interest in NCOF II	-	33	-	75	allocated from net income to income attributable to Shareholders
Management fees related to non-controlling interest in CCF IV LP and NCOF II	419	362	805	654	allocated from net income to income attributable to Shareholders
	\$ 1,281	\$ 2,557	\$ 2,006	\$ 3,328	

## Critical Estimates and Accounting Policies

The preparation of the condensed consolidated interim financial statements in accordance with the financial reporting framework requires management to make judgments, estimates and assumptions that affect the application of the Corporation's accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosures of contingent assets and liabilities at the reporting date. 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 condensed consolidated interim financial statements for the three months ended June 30, 2018 are included in the following notes in those financial statements:

- Note 3 – Significant accounting policies;
- Note 4 – Financial instruments;
- Note 7 – Share-based compensation.

Additional information about critical estimates and accounting policies can be found in the Corporation's 2017 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 9:

On January 1, 2018, the Corporation adopted IFRS 9, which replaces the guidance in IAS 39. The Corporation applied IFRS 9 on a retrospective basis and did not restate prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented in 2018.

The new standard brings fundamental changes to the accounting for financial assets. Whereas the Corporation's debt instruments were classified and measured at FVTPL for periods prior to January 1, 2018, the Corporation now measures some of its debt instruments at amortized cost and others at fair value. Therefore, for those debt instruments which are now classified and measured at amortized cost under IFRS 9, a transition adjustment was applied to opening retained earnings as at January 1, 2018. This adjustment includes an amount to account for up-front financing fees over the term of the related debt instruments as part of the effective interest rate. Financing fees earned at the time of origination of instruments accounted for at FVTPL will continue to be recognized when the debt instrument is originated. The impact of adoption of IFRS 9 to opening retained earnings was a reduction of \$0.9 million, as detailed in the following table.

As at January 1, 2018	(000's)
Investments at amortized cost:	
Amortized cost under IFRS 9	\$114,498
Fair value under IAS 39	(116,499)
Allowance for expected credit loss under IFRS 9	(103)
Difference in carrying value of investments at amortized cost	(2,104)
Non-controlling interest adjustment	896
Total difference in carrying values before tax impact	(1,208)
Tax impact on difference in carrying values (26.5% effective tax rate)	320
Impact of adoption of IFRS 9 to retained earnings	\$ (888)

Information regarding the key aspects of IFRS 9 and their impact to the Corporation's accounting policies resulting from its adoption can be found in Note 3, Significant accounting policies in the Corporation's condensed consolidated interim financial statements for the three and six months ended June 30, 2018.

#### IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"):

Effective January 1, 2018 the Corporation adopted IFRS 15, replacing IAS 18 "Revenue" and other revenue related guidance. The Corporation adopted IFRS 15 using the modified retrospective with

cumulative effect approach and, as permitted, elected to apply the new standard only to contracts that were not completed contracts on January 1, 2018. The adoption of IFRS 15 did not impact the timing or measurement of revenues within the scope of the standard, which would include performance fee revenues from managed funds.

### **New Accounting Policy Implemented in the Period**

#### **Compound Financial Instruments:**

The Corporation's compound financial instrument is comprised of its Convertible Debentures that can be converted to common shares at the option of the holder. The number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of a convertible debenture is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any direct attributable transaction costs are allocated to the equity and liability components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition. On conversion at maturity, the financial liability is reclassified equity and no gain or loss is recognized.

### **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 Facility and Convertible Debentures – liability component. The fair value of share purchase loans approximates carrying value due to the variable rate of interest applicable to these instruments. The fair values of other financial instruments approximate carrying value due to the short term to maturity of the instruments.

The Corporation, through its subsidiaries CCFC, CCF IV LP 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 CCF IV LP's interest in Source common shares. The Corporation's Canadian warrants include CCF IV LP's interest in common share purchase warrants of Marquee, Medicure, Baylin, Data Communications and Persta. Source, Marquee, 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. A portion of the debt instruments held by the Corporation are unrated and 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 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 CCF IV LP's loans to BGO, Touchstone, Source, Solo, Marquee, Ferus, RBee, Active, Canadian Helicopters, Baylin, Data Communications and Persta and Crown Private Credit Fund's loans to PenEquity, Mill Street and WireIE. The primary risk to the carrying value of these debt securities is credit risk. Other than the PenEquity and Mill Street loans, 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 2017 audited consolidated financial statements and notes thereto and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **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.

The primary risk factor for CCF IV LP is credit risk, being the potential inability of one or more of the 12 portfolio companies to meet their obligations to CCF IV LP. As at June 30, 2018, CCF IV LP held Source common shares which were valued at \$0.6 million, Marquee common share purchase warrants which were valued at \$0.1 million, Medisure common share purchase warrants which were valued at \$1.1 million, Baylin common share purchase warrants which were valued at \$0.7 million, Data Communications common share purchase warrants valued at \$0.6 million and Persta warrants valued at \$0.7 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, Mill Street or WireIE 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.

See Note 5 - Financial risk management in the Corporation's December 31, 2017 audited consolidated financial statements.

A complete 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).

### **Disclosure Controls and Procedures and Internal Control over Financial Reporting**

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 MCS 21, of which Crown acquired a 50% interest on June 26, 2018, and of Genphix and MCS 20, which are both 100%-owned by MCS 21. The total aggregate assets acquired and total aggregate liabilities assumed at closing, before deducting amounts attributable to non-controlling interests, represented approximately 0.2% and 0.3% of total consolidated assets and total consolidated liabilities, respectively, as at June 30 2018. The impact of the acquisition on consolidated net income attributable to shareholders for the three months ended June 30, 2018 was not significant. 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.

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 three months ended June 30, 2018 that have materially affected, or are reasonably likely to materially affect, Crown's ICFR.

### **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 and Crown Private Credit Fund;
- the investments of Crown Partners Fund in Special Situations Financing transactions and the potential structuring of such transactions;
- the performance of financing clients;
- the investments of Crown Private Credit Fund in Long-Term Financing transactions and the potential structuring of such transactions;
- the Corporation's business plans and strategy;



- the Corporation's future cash flow and shareholder value;
- the sourcing of deals from Crown's established network and its potential pipeline of projects;
- the future capitalization of Crown Partners Fund, Crown Private Credit Fund, Crown Power Fund and Crown and future closings in relation thereto;
- Crown's future entitlement to base management and performance fees;
- the effect of delays between the repayment of loans and the redeployment of capital on Crown's financial condition;
- the future accounting policies of the Corporation;
- the alternative financial market and the general economy;
- the determination of recovery levels for Crown's loans going forward;
- the effect of the early repayment of loans on anticipated interest income;
- 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, continuing constraints on bank lending to mid-market companies for at least several years, 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, 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.

### **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.

### **Additional Information**

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com), including the Annual Information Form.

# Condensed Consolidated Interim Financial Statements

Three and six months ended June 30, 2018 and 2017

# CROWN CAPITAL PARTNERS INC.

## Condensed Consolidated Interim Statements of Financial Position (unaudited)

(expressed in thousands of Canadian dollars)

As at	June 30, 2018	December 31, 2017
<b>Assets</b>		
Cash and cash equivalents	\$ 21,955	\$ 41,106
Accounts receivable	3,686	3,048
Income taxes recoverable	294	42
Prepaid expenses and deposits (Note 14)	4,716	68
Investments (Note 4)	242,954	181,302
Share purchase loans (Note 8)	2,928	2,226
Office equipment	138	11
Deferred financing costs	408	536
Deferred income taxes	607	711
	<b>\$ 277,686</b>	<b>\$ 229,050</b>
<b>Liabilities and Shareholders' Equity</b>		
Accounts payable and accrued liabilities	\$ 1,638	\$ 1,527
Distributions payable to non-controlling interest	6,364	2,015
Provision for deferred compensation (Note 7)	251	-
Provision for performance bonus (Note 5)	2,037	2,665
Credit facility (Note 9)	14,000	-
Convertible Debentures - liability component (Note 10)	18,061	-
Non-controlling interests (Note 12)	131,021	118,394
<b>Total Liabilities</b>	<b>173,372</b>	<b>124,601</b>
<b>Equity</b>		
Share capital (Note 6)	96,074	96,570
Convertible Debentures - equity component (Note 10)	483	-
Contributed surplus	3,641	2,931
Retained earnings	4,116	4,948
<b>Total Equity</b>	<b>104,314</b>	<b>104,449</b>
	<b>\$ 277,686</b>	<b>\$ 229,050</b>
<b>Commitments (Note 14)</b>		
<b>Subsequent events (Note 15)</b>		

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

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

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

	For the three months ended June 30,		For the six months ended June 30,	
	2018	2017	2018	2017
<b>Revenues</b>				
Interest revenue	\$ 6,274	\$ 5,623	\$ 11,837	\$ 10,008
Fees and other income	1,636	3,080	1,835	3,606
Performance fee distributions (Note 5)	-	1,044	-	1,044
Net gain on investments				
Net realized gain from investments	222	2,733	222	3,286
Net change in unrealized gains (losses) of investments	902	(4,765)	444	(3,473)
	9,034	7,715	14,338	14,471
<b>Expenses</b>				
Salaries, management fees and benefits	806	885	1,518	1,365
Share-based compensation (Note 7)	476	402	996	816
General and administration	592	398	991	815
Performance bonus expense	298	1,152	356	1,398
Depreciation	3	2	5	3
Provision for credit losses	29	-	56	-
Finance costs (Note 9 and 10)	344	141	479	288
	2,548	2,980	4,401	4,685
<b>Earnings before income taxes</b>	6,486	4,735	9,937	9,786
Income taxes				
Current tax expense	694	495	1,103	1,204
Deferred tax	142	273	250	321
	836	768	1,353	1,525
<b>Net income and comprehensive income</b>	\$ 5,650	\$ 3,967	\$ 8,584	\$ 8,261
<b>Net income and comprehensive income attributable to:</b>				
Shareholders of the Corporation	\$ 1,970	\$ 1,767	\$ 2,871	\$ 3,511
Non-controlling interests (Note 12)	3,680	2,200	5,713	4,750
	\$ 5,650	\$ 3,967	\$ 8,584	\$ 8,261
<b>Earnings per share attributable to shareholders:</b>				
Basic	\$ 0.21	\$ 0.19	\$ 0.30	\$ 0.37
Diluted	\$ 0.20	\$ 0.18	\$ 0.29	\$ 0.36
Weighted average number of shares, basic	9,467,790	9,519,598	9,482,208	9,520,471
Weighted average number of shares, diluted	9,839,266	9,853,463	9,845,443	9,846,354

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

## Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

For the six months ended June 30, 2018 and 2017

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

	Number of shares	Share capital	Convertible Debentures - equity component	Contributed surplus	Retained earnings	Total Equity
Balance as at January 1, 2017	9,514,759	\$ 96,635	\$ -	\$ 1,900	\$ 2,984	\$ 101,519
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	-	3,511	3,511
Share-based compensation (Note 7)	-	-	-	816	-	816
Cash-settled share-based compensation (Note 7)	-	-	-	(67)	(4)	(71)
Issuance of common shares (Note 6)	14,231	134	-	(134)	-	-
Shares repurchased (Note 6)	(11,558)	(118)	-	-	4	(114)
Dividends declared (Note 6)	-	-	-	-	(2,285)	(2,285)
Balance as at June 30, 2017	9,517,432	\$ 96,651	\$ -	\$ 2,515	\$ 4,210	\$ 103,376
Balance as at January 1, 2018	9,510,017	\$ 96,570	\$ -	\$ 2,931	\$ 4,948	\$ 104,449
Impact of adoption of IFRS 9 (Note 3)	-	-	-	-	(888)	(888)
Adjusted balance as at January 1, 2018	9,510,017	96,570	-	2,931	4,060	103,561
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	-	2,871	2,871
Share-based compensation (Note 7)	-	-	-	975	-	975
Cash-settled share-based compensation (Note 7)	-	-	-	(120)	2	(118)
Issuance of common shares (Note 6)	14,413	145	-	(145)	-	-
Shares repurchased (Note 6)	(63,058)	(641)	-	-	28	(613)
Conversion feature of Convertible Debentures issued, net of tax effect (Note 10)	-	-	483	-	-	483
Dividends declared (Note 6)	-	-	-	-	(2,845)	(2,845)
Balance as at June 30, 2018	9,461,372	\$ 96,074	\$ 483	\$ 3,641	\$ 4,116	\$ 104,314

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

## Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(expressed in thousands of Canadian dollars)

For the six months ended June 30,	2018	2017
Cash provided by (used in) operating activities		
Net income	\$ 8,584	\$ 8,261
Non-cash items:		
Net realized gain from investments	(222)	(3,286)
Net change in unrealized losses (gains) in fair value of investments	(444)	3,473
Finance fees earned on loans carried at amortized cost	1,605	-
Amortization component of interest revenue on loans carried at amortized cost	(647)	-
Provision for expected credit loss	56	-
Non-cash finance costs	143	141
Depreciation	5	3
Deferred income tax	250	321
Share-based compensation, net of cash settlements	878	745
Provision for performance bonus, net of payments (Note 5)	(629)	1,398
Net change in non-cash working capital (Note 13)	(717)	2,816
	8,862	13,872
Cash provided by (used in) investing activities		
Proceeds from repayment of debt securities	7,895	45,142
Purchase of investments	(72,000)	(80,475)
Share purchase loan advances, net of repayments (Note 8)	(702)	(2,254)
Acquisition of subsidiary, net of cash acquired (Note 11)	15	-
Purchase of office equipment	(123)	-
Net change in non-cash working capital (Note 13)	(4,648)	-
	(69,563)	(37,587)
Cash provided by (used in) financing activities		
Non-controlling interest contributions to CCF IV LP (Note 12)	18,402	41,448
Distributions paid by NCOF II to non-controlling interest	-	(6,120)
Distributions paid by CCF IV LP to non-controlling interest	(6,243)	(4,222)
Credit facility advances, net of repayments (Note 9)	14,000	-
Issuance of Convertible Debentures, net of issuance costs (Note 10)	18,703	-
Shares repurchased (Note 6)	(613)	(114)
Dividends (Note 6)	(2,845)	(2,285)
Net change in non-cash working capital (Note 13)	146	(789)
	41,550	27,918
Increase (decrease) in cash and cash equivalents	(19,151)	4,203
Cash and cash equivalents, beginning of period	41,106	19,262
Cash and cash equivalents, end of period	\$ 21,955	\$ 23,465
Supplemental cash flow information:		
Interest received in the period	\$ 11,965	\$ 11,106
Income taxes paid in the period	\$ 1,355	\$ 1,073

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

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## 1. Reporting entity:

Crown Capital Partners Inc. (the “Corporation”) was incorporated under the Canada Business Corporations Act on September 8, 1999 and commenced operations effective October 1, 2000. The Corporation provides investment management services and its registered office is Suite 888 3rd Street S.W., Calgary, Alberta. These condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2018 and 2017 comprise the Corporation and its subsidiaries, which include:

- A 100% interest (June 30, 2017 – 100%) in Crown Capital Funding Corporation (“CCFC”);
- Through CCFC, a 100% interest (June 30, 2017 – 100%) in Crown Capital Private Credit Fund, LP (“Crown Private Credit Fund”);
- Through CCFC, an effective interest of 36.5% (June 30, 2017 – 35%) in Crown Capital Fund IV, LP (“CCF IV LP”);
- A 100% interest (June 30, 2017 – 100%) in Crown Capital Private Credit Management Inc. (“CCPC MI”), the general partner of Crown Private Credit Fund;
- A 100% interest (June 30, 2017 – 100%) in Crown Capital Fund IV Management Inc. (“CCF IV”), the general partner of CCF IV LP and Crown Capital Fund IV Investment, LP (“CCF IV Investment”);
- Prior to its dissolution on June 30, 2017, a 69.75% interest in Norrep Credit Opportunities Fund II, LP (“NCOF II”);
- A 100% interest (June 30, 2017 – 100%) in Crown Capital Fund III Management Inc. (“CCF III”), the general partner and manager of Norrep Credit Opportunities Fund, LP and, prior to their dissolution on June 30, 2017, NCOF II and Norrep Credit Opportunities Fund II (Parallel), LP;
- Effective June 8, 2018 upon its formation, a 100% interest (June 30, 2017 – nil) in Crown Capital Power Limited Partnership (“Crown Power Fund”);
- Effective June 8, 2018 upon its incorporation, a 100% interest (June 30, 2017 – nil) in 10824356 Canada Inc., the general partner of Crown Power Fund; and
- Effective June 26, 2018, through Crown Power Fund, a 50% interest (June 30, 2017 – nil) in MCS Energy 21 Inc. (“MCS 21”) which, in turn, holds a 100% interest in the following entities: Genphix Corporation (“Genphix”), MCS Energy 20 Inc. (“MCS 20”), MCS Energy 16 Inc. (“MCS 16”) and MCS Energy 17 Inc. (“MCS 17”) (see Note 11).



# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

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## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Corporation’s financial position and results of operations since the last annual consolidated financial statements as at and for the year ended December 31, 2017. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2017.

These condensed consolidated interim financial statements were authorized for issue by the Corporation’s Board of Directors on August 7, 2018.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

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

### (d) Use of estimates and judgments:

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

The significant judgments made by management in applying the Corporation’s accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2017, other than those in relation to the determination of expected credit losses following the adoption of IFRS 9, effective January 1, 2018 (see Note 3).

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

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### 3. Significant accounting policies:

The accounting policies applied to these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2017, except for those detailed below.

(a) New policy implemented in period:

Compound Financial Instruments:

The Corporation's compound financial instrument is comprised of its convertible debentures that can be converted to common shares at the option of the holder. The number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of a convertible debenture is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the difference between fair value of the compound financial instrument as a whole and the fair value of the liability component. Any direct attributable transaction costs are allocated to the equity and liability components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound instrument is measured at amortized cost using the effective interest method. The equity component of the compound instrument is not re-measured subsequent to initial recognition. On conversion at maturity, the financial liability is reclassified to equity and no gain or loss is recognized.

(b) Current period changes in accounting policies:

IFRS 9 "*Financial Instruments*" ("IFRS 9"):

On January 1, 2018, the Corporation adopted IFRS 9, which replaces the guidance in IAS 39 "*Financial Instruments: Recognition and Measurement*" ("IAS 39"). The Corporation applied IFRS 9 on a retrospective basis through an adjustment to retained earnings as at January 1, 2018 and did not restate 2017 and prior period comparative consolidated financial statements, which are reported under IAS 39 and are therefore not comparable to the information presented in 2018.

The new standard brings fundamental changes to the accounting for financial assets. The key aspects of IFRS 9 and their impact to the Corporation's accounting policies resulting from its adoption are summarized below.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

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## 3. Significant accounting policies (continued):

### (b) Current period changes in accounting policies (continued):

IFRS 9 “*Financial Instruments*” (continued):

#### Classification and measurement

IFRS 9 classification of financial assets is based on the business model for managing the portfolio of assets and the contractual cash flow characteristics of these financial assets. IFRS 9 contains three principal classification categories for financial assets that are debt securities: measured at amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit or loss (“FVTPL”). Equity securities are generally measured at FVTPL unless an election is taken to measure at FVOCI. The standard eliminates the existing IAS 39 categories of held to maturity, held for trading, loans and receivables and available-for-sale.

The Corporation’s classification and measurement of equity investments and financial liabilities remain unchanged under IFRS 9 and these will continue to be measured at FVTPL and amortized cost, respectively.

The Corporation’s debt instruments are held within a business model where the objective is achieved by holding to collect the contractual cash flows, rather than holding to sell. The Corporation therefore is required to assess the contractual terms of the cash flows to determine the appropriate classification and measurement of its debt instruments. For those debt instruments which give rise to cash flows that are solely payments of principal and interest, these financial assets are classified and measured at amortized cost. For those debt instruments which give rise to cash flows that are other than solely payments of principal and interest, these financial assets are classified and measured at FVTPL. The Corporation measures some of its debt instruments at amortized cost and others at fair value based on these requirements.

For periods prior to January 1, 2018 for which the Corporation reported comparative consolidated financial statements under IAS 39, all of the Corporation’s debt instruments were classified and measured at FVTPL. Therefore, for those debt instruments which are now classified and measured at amortized cost under IFRS 9, a transition adjustment was applied to opening retained earnings as at January 1, 2018. This adjustment includes an amount to reverse up-front financing fees previously recognized under IAS 39 at the time related debt instruments were originated and to defer and amortize such fees over the term of the related debt instrument as part of the effective interest rate. Financing fees earned at the time of origination of instruments accounted for at FVTPL will continue to be recognized when the debt instrument is originated. The impact of adoption of IFRS 9 to opening retained earnings was a reduction of \$888, as detailed in the following table.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

## 3. Significant accounting policies (continued):

(b) Current period changes in accounting policies (continued):

IFRS 9 “Financial Instruments” (continued):

<b>As at January 1, 2018</b>	
Investments at amortized cost:	
Amortized cost under IFRS 9	\$114,498
Fair value under IAS 39	(116,499)
Allowance for expected credit loss under IFRS 9	(103)
Difference in carrying value of investments at amortized cost	(2,104)
Non-controlling interest adjustment (Note 12)	896
Total difference in carrying values before tax impact	(1,208)
Tax impact on difference in carrying values (26.5% effective tax rate)	320
Impact of adoption of IFRS 9 to retained earnings	\$ (888)

The following table reconciles the carrying amounts of financial assets under IAS 39 to the carrying amounts under IFRS 9 upon transition to IFRS 9 as at January 1, 2018.

	<b>IAS 39 carrying amount at December 31, 2017</b>	<b>Reclassification</b>	<b>Remeasurement</b>	<b>IFRS 9 carrying amount at January 1, 2018</b>
Investments:				
Canadian debt securities at FVTPL	\$ 174,519	\$ (116,499)	\$ -	\$ 58,020
Canadian debt securities at amortized cost, net of allowance for credit loss	-	116,499	(2,104)	114,395
Canadian equity securities	4,202	-	-	4,202
Other investments	2,581	-	-	2,581
<b>Total Investments</b>	<b>\$ 181,302</b>	<b>\$ -</b>	<b>\$ (2,104)</b>	<b>\$ 179,198</b>

# CROWN CAPITAL PARTNERS INC.

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## 3. Significant accounting policies (continued):

### (b) Current period changes in accounting policies (continued):

IFRS 9 “*Financial Instruments*” (continued):

#### Impairment of financial assets

IFRS 9 replaces the incurred loss model in IAS 39 with an expected credit loss model that applies to financial assets, including debt investments carried at amortized cost, as well as to certain loan commitments and financial guarantees but not to equity investments. Expected credit losses are the difference between all contractual cash flows that are due to the Corporation and all the cash flows the Corporation expects to receive, discounted at the original effective interest rate.

The expected loss impairment model is based on a forward-looking approach and contains a three-stage methodology to evaluate changes in credit risk since initial recognition. For assets where there has not been a significant increase in credit risk since initial recognition (Stage One), a loss provision equal to 12 months expected credit losses is recognized. If credit risk increases significantly from initial recognition (Stage Two) or if a financial asset is considered credit impaired (Stage Three), a loss provision equal to the lifetime expected credit losses is recognized.

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Corporation considers reasonable and supportable information that is relevant and available. This includes both quantitative and qualitative information and analysis, based on the Corporation’s historical experience and credit risk assessment from qualified personnel, including forward-looking information.

The key inputs into the measurement of expected credit loss, regardless of the presence of significant increase in credit risk, are probability of default, loss given default and exposure at default.

As a result of the new impairment model under IFRS 9, the Corporation recorded an allowance for credit losses of \$103 on January 1, 2018.

IFRS 15 “*Revenue from Contracts with Customers*” (“IFRS 15”):

Effective January 1, 2018 the Corporation adopted IFRS 15, replacing IAS 18 “*Revenue*” and other revenue related guidance. The Corporation adopted IFRS 15 using the modified retrospective with cumulative effect approach and, as permitted, elected to apply the new standard only to contracts that were not completed contracts on January 1, 2018. The adoption of IFRS 15 did not impact the timing or measurement of revenues within the scope of the standard, which would include performance fee revenues from managed funds.

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## 3. Significant accounting policies (continued):

### (c) New standards not yet adopted:

IFRS 16 “Leases” (“IFRS 16”):

In January 2016, the International Accounting Standards Board issued IFRS 16, which replaced IAS 17: *Leases*. For leases in the scope of IFRS 16, a single recognition and measurement model would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. The Corporation is in the process of assessing the impacts of this new standard.

## 4. Financial instruments:

### (a) Investments

As at	June 30, 2018	December 31, 2017
Investments at FVTPL:		
Canadian debt securities at FVTPL	\$ 68,547	\$ 174,519
Canadian equity securities	5,207	4,202
Other investments	3,603	2,581
Total Investments at FVTPL	\$ 77,357	\$ 181,302
Canadian debt securities at amortized cost, net of allowance for credit loss	165,597	-
Total Investments	\$ 242,954	\$ 181,302

### (b) Canadian debt securities

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

Contractual maturity	June 30, 2018	December 31, 2017
On demand	\$ 17,398	\$ 25,000
0 – 12 months	-	810
1 – 3 years	21,270	6,480
3 – 5 years	154,322	110,229
5 years or more	41,154	32,000
Total debt securities	\$ 234,144	\$ 174,519

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## 4. Financial instruments (continued):

### (b) Canadian debt securities (continued):

As at June 30, 2018, investments held in the form of Canadian debt securities had coupon interest rates ranging from 8.0% to 14.0% (December 31, 2017 – 8.0% to 14.0%) per annum.

Interest revenue calculated using the effective interest rate method for debt securities carried at amortized cost totaled \$4,498 and \$8,455 for the three and six months ended June 30, 2018.

### (c) Canadian equities

As at June 30, 2018, investments in equity securities included common shares of a Canadian public company, warrants in Canadian public companies and warrants in Canadian private companies.

### (d) Provision for credit losses

The changes to the Corporation's allowance for credit losses under IFRS 9, as at and for the six months ended June 30, 2018, are shown in the following table.

	<b>Allowance for credit losses</b>
Balance as at January 1, 2018	\$ -
Impact of adoption of IFRS 9	103
Adjusted balance as at January 1, 2018	103
Provision for credit losses in the period	56
Balance as at June 30, 2018	\$ 159

As at June 30, 2018, the total gross carrying values of debt instruments at amortized cost classified as Stage One, Stage Two and Stage Three were \$165,756, \$nil and \$nil, respectively. The allowance for credit losses associated with these Stage One, Stage Two and Stage Three investments as at June 30, 2018 was \$159, \$nil and \$nil, respectively.

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## 4. Financial instruments (continued):

### (e) Fair values:

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

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

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

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

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



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## 4. Financial instruments (continued):

### (e) Fair values (continued):

The tables below analyze the fair value of investments at June 30, 2018 and December 31, 2017 by the level in the fair value hierarchy into which the fair value measurement is categorized. For investments carried at FVTPL, the amounts are based on the values recognized in the statement of financial position. There were no transfers between levels during the period.

June 30, 2018					
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Carrying value
Canadian debt securities at FVTPL	\$ -	\$ -	\$ 68,547	\$ 68,547	\$ 68,547
Canadian equity securities	577	3,154	1,476	5,207	5,207
Other investments	-	-	3,603	3,603	3,603
Total Investments at FVTPL	577	3,154	73,626	77,357	77,357
Canadian debt securities at amortized cost, net of allowance for credit loss	-	-	168,601	168,601	165,597
Total Investments	\$ 577	\$ 3,154	\$ 242,227	\$ 245,958	\$ 242,954

December 31, 2017					
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Carrying value
Canadian debt securities	\$ -	\$ -	\$ 174,519	\$ 174,519	\$ 174,519
Canadian equity securities	1,055	1,671	1,476	4,202	4,202
Other investments	-	-	2,581	2,581	2,581
Total Investments	\$ 1,055	\$ 1,671	\$ 178,576	\$ 181,302	\$ 181,302

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## 4. Financial instruments (continued):

### (e) Fair values (continued):

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

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

Discount rates are subject to adjustment based on both management's current assessment of market conditions and the economic performance of individual investments. At June 30, 2018, discount rates used range from 10.5% to 18.2% (December 31, 2017 – 10.7% to 17.9%).

The most significant input into the calculation of fair value of Level 3 debt investments is the discount rate applied to expected future cash flows. If the discount rate increased (decreased) by 100 bps, the fair value of Level 3 investments at June 30, 2018 would decrease by \$6,386 or increase by \$6,714, respectively.

The Canadian equity securities at June 30, 2018 include warrants classified as Level 3 that are valued based on a net asset value-based estimate of the underlying equity value. The other investments classified as Level 3 are valued using the discounted present value of expected cash flows arising from these investments.

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

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## 4. Financial instruments (continued):

(e) Fair values (continued):

June 30, 2018	
	Level 3 securities at FVTPL
Beginning balance, January 1, 2018	\$ 62,077
Purchases	10,000
Net change in unrealized gains	1,549
Balance, June 30, 2018	\$ 73,626
June 30, 2017	
	Level 3 securities at FVTPL
Beginning balance, January 1, 2017	\$ 154,466
Purchases	79,334
Repayment	(43,754)
Realized gains	2,826
Net change in unrealized gains	(2,944)
Balance, June 30, 2017	\$ 189,928

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, distributions payable to non-controlling interests and credit facility approximate their fair values due to their short term to maturity. The carrying value of the share purchase loans approximates the fair value due to the market interest rate on the loans. The carrying value of the Convertible Debentures – liability component approximates fair value at June 30, 2018 due to the market interest rate at June 30, 2018 which was consistent with that used to record the Convertible Debentures – liability component upon initial recognition at fair value on June 13, 2018.

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## 5. Provision for performance bonus:

The Corporation has asset performance bonus pool (“APBP”) arrangements for certain employees (“APBP Participants”). For certain investment funds managed by the Corporation, 20% of investment returns in excess of an annual rate of return of 8% earned by the fund accrue to the Corporation as performance fee distributions.

Allocation of the units of the APBP relating to CCF IV LP commenced in 2015 and will continue until 2022 with 50% of performance fees recognized by the fund allocated to employees. Performance bonus amounts will be paid to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners in the related investment funds. As at June 30, 2018, the Corporation had accrued a provision for performance bonus payable of \$2,037 (December 31, 2017 - \$2,665).

## 6. Share capital:

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

On April 10, 2017, the Corporation renewed its normal course issuer bid (“NCIB”) to purchase up to 310,000 common shares, representing approximately 3.3% of its issued and outstanding shares as at April 4, 2017. On April 10, 2018, the Corporation renewed its NCIB to purchase up to 300,000 common shares, representing approximately 3.2% of its issued and outstanding common shares as at April 5, 2018, over the next twelve months, or until such time as the bid is completed or terminated at the Corporation’s option. Any shares purchased under this bid are purchased on the open market at the prevailing market price at the time of the transaction. Common shares acquired under this bid are cancelled.

During the three and six months ended June 30, 2018, the Corporation purchased and cancelled a total of 28,358 and 63,058 shares, respectively (June 30, 2017 – 6,158 and 11,558 shares, respectively), for total consideration of \$283 and \$613, respectively (June 30, 2017 - \$62 and \$114, respectively). Total shares purchased and cancelled under the current NCIB up to June 30, 2018 was 12,600.

During the three and six months ended June 30, 2018, the Corporation issued 5,563 and 14,413 shares, respectively, as vested share-based compensation. During the three and six months ended June 30, 2017, the Corporation issued nil and 14,231 shares, respectively, as vested share-based compensation (see Note 7).

During the six months ended June 30, 2018, the Corporation paid dividends of \$0.30 per share (June 30, 2017 - \$0.24 per share) for a total payment of \$2,845 (2017 - \$2,285).

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## 7. Share-based compensation:

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

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

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

Stock options granted are valued using a Black-Scholes formula and the expense is recognized over the vesting period. The stock options vest over a three-year period and have a five-year term and an exercise price of \$11.00. As at June 30, 2018, 303,657 (December 31, 2017 - 293,051) stock options had vested but had not been exercised and an additional 167,737 (December 31, 2017 - 178,343) stock options which had not vested remained outstanding.

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## 7. Share-based compensation (continued):

The tables below detail the share-based compensation expense recognized in the six months ended June 30, 2018 and 2017. Share-based compensation expense is recognized over the expected vesting period of each award.

For the six months ended June 30, 2018						
	Number outstanding at January 1, 2018	Issued in the period	Vested or exercised	Number outstanding Forfeited	at June 30, 2018	Expensed in the period
TRSUs <sup>1</sup>	200,725	6,289	-	-	207,014	\$ 376
PSUs <sup>2</sup>	38,426	43,085	(4,107)	-	77,404	283
RSUs <sup>2</sup>	80,210	23,235	(16,519)	-	86,926	228
RRSUs	-	5,726	(5,726)	-	-	55
DDSDs	-	24,698	-	-	24,698	21
Total Share Units	319,361	103,033	(26,352)	-	396,042	963
Stock options	471,394	-	-	-	471,394	33
Total	790,755	103,033	(26,352)	-	867,436	\$ 996

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

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

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## 7. Share-based compensation (continued):

For the six months ended June 30, 2017						
	Number outstanding at January 1, 2017	Issued in the period	Vested or exercised	Number outstanding Forfeited	at June 30, 2017	Expensed in the period
TRSUs <sup>1</sup>	190,976	4,538	-	-	195,514	\$ 312
PSUs <sup>2</sup>	46,410	42,382	(16,235)	-	72,557	299
RSUs <sup>2</sup>	51,677	21,929	(5,115)	-	68,491	136
RRSUs	-	-	-	-	-	-
Total Share Units	289,063	68,849	(21,350)	-	336,562	747
Stock options	446,394	31,818	-	(6,818)	471,394	69
Total	735,457	100,667	(21,350)	(6,818)	807,956	\$ 816

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

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

## 8. Share purchase loans:

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

During the three and six months ended June 30, 2018, the Corporation advanced \$1,054 new loans under the Share Purchase Plan and \$33 and \$353, respectively, of principal was repaid. As at June 30, 2018, \$2,928 of loans were outstanding (December 31, 2017 - \$2,226), including accrued interest of \$8. The loans under the Share Purchase Plan bear interest at prime (3.45% as at June 30, 2018), mature on June 3, 2024 and April 2, 2025, and are personally guaranteed by Participants. The shares are pledged as security for the loans and had a fair value of \$3,816 as at June 30, 2018.

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## 9. Credit facility:

The Corporation has a \$35 million senior secured revolving credit facility (the "Credit Facility") to fund investments in mid-market corporations. The Credit Facility provides financing at a variable interest rate based on Bankers Acceptance rate plus 375 bps to 425 bps and has a customary set of covenants. The Credit Facility matures on December 30, 2019 and is subject to a one year extension annually on each December 30. As of June 30, 2018, \$14,000 (December 31, 2017, \$nil) has been drawn on the Credit Facility.

## 10. Convertible Debentures:

On June 13, 2018 the Corporation issued \$20,000 of 6.0% convertible unsecured subordinated debentures (the "Convertible Debentures"). The Convertible Debentures bear interest at a rate of 6.0% per annum, payable semi-annually in arrears on June 30 and December 31 of each year, commencing on December 31, 2018. The maturity date of the Convertible Debentures is June 30, 2023 (the "Debenture Maturity Date"). Each \$1,000 principal amount of Convertible Debenture is convertible at the option of the holder into approximately 72.99 common shares of the Corporation (representing a conversion price of \$13.70) no later than the earliest to occur of: (i) the last business day prior to the Debenture Maturity Date, (ii) the last business day immediately preceding any Redemption Date (as defined in the Trust Indenture), and (iii) if called for repurchase pursuant to a mandatory repurchase as a result of a Change of Control (as defined in the Trust Indenture) on the last business day preceding the date of payment. The Convertible Debentures are not redeemable on or before June 30, 2021, except in limited circumstances following a Change of Control. After June 30, 2021, but prior to June 30, 2022, the Convertible Debentures may be redeemed in whole or in part from time to time at the Corporation's option, on not more than 60 days and not less than 30 days prior written notice, at a price equal to the aggregate principal amount plus accrued and unpaid interest, provided that the weighted average price of the common shares during the 20 consecutive trading days ending on the fifth day preceding the date on which the notice of redemption is given is not less than 125% of the conversion price. On or after June 30, 2022 and prior to the Debenture Maturity Date, the Convertible Debentures may be redeemed in whole or in part from time to time at the Corporation's option, on not more than 60 days and not less than 30 days prior written notice, at a price equal to their aggregate principal amount plus accrued and unpaid interest. The Convertible Debentures are direct, subordinated unsecured obligations of the Corporation, subordinated to the Credit Facility.



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## 10. Convertible Debentures (continued):

On a redemption date or on the Debenture Maturity Date, as applicable, subject to required regulatory approvals and provided that no Event of Default (as defined in the Trust Indenture) has occurred and is continuing, the Corporation may, at its option, on not more than 60 days and not less than 40 days prior notice, elect to satisfy its obligation to pay the aggregate principal amount of and premiums on (if any) the Convertible Debentures by issuing common shares. Payment for such Convertible Debentures, subject to the election, would be satisfied by delivering that number of common shares obtained by dividing the aggregate principal amount of the outstanding Convertible Debentures which are to be redeemed, or which will mature, by 95% of the Weighted Average Price of the Common Shares for the 20 consecutive trading days ending five trading days prior to the date fixed for redemption or the Maturity Date, as the case may be. Any accrued and unpaid interest will be paid in cash.

	Liability Component	Equity Component
Balance, December 31, 2017	\$ -	\$ -
Issuance of Convertible Debentures	19,297	703
Issuance costs	(1,251)	(46)
Deferred income tax liability	-	(174)
Effective interest on Convertible Debentures	15	-
Balance, June 30, 2018	\$ 18,061	\$ 483

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## 11. Business combination:

On June 26, 2018, the Corporation, through Crown Power Fund, acquired 50% of the outstanding shares of MCS 21 for nil consideration. MCS 21 holds a 100% interest in each of Genphix, MCS 20, MCS 16 and MCS 17. The primary reason for the business combination was to gain access to the market of generating and providing electricity under long-term contracts to mid to large-scale electricity users for the purpose of providing investment opportunities for Crown Power Fund. The following table summarizes the recognized amount of assets acquired and liabilities assumed at the date of acquisition.

### Assets

Cash and cash equivalents	\$ 15
Accounts receivable	547
Office equipment	10
Total assets	572

### Liabilities

Accounts payable and accrued liabilities	572
Total liabilities	572
Total identified net assets acquired	\$ nil

Consideration paid	\$ nil
Non-controlling interests (50%)	nil
Gain on acquisition	nil
Total	\$ nil

The recognized amounts of assets and liabilities acquired at their fair values are preliminary and may be subject to adjustments. Fair values are estimated using the information available as at the date of these condensed consolidated financial statements. As a result, these preliminary allocations may change.

If the acquisition had occurred on January 1, 2018, it is estimated that revenue and net income and comprehensive income, for the six months ended, would have been increased by approximately \$2,078 and \$335, respectively.

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## 12. Non-controlling interests (NCI):

As at	June 30, 2018		
	MCS 21	CCF IV LP	Total
NCI percentage	50.0%	63.5% <sup>1</sup>	
Beginning balance, January 1, 2018	\$ -	\$ 118,394	\$ 118,394
Impact of adoption of IFRS 9 (Note 3)	-	(896)	(896)
Adjusted balance, January 1, 2018	-	117,498	117,498
Net income and			
comprehensive income	-	5,713	5,713
Contributions	-	18,402	18,402
Distributions	-	(10,592)	(10,592)
Balance, June 30, 2018	\$ -	\$ 131,021	\$ 131,021

As at	June 30, 2017		
	NCOF II	CCF IV LP	Total
NCI percentage	30.25%	65.0% <sup>1</sup>	
Beginning balance, January 1, 2017	\$ 5,616	\$ 68,295	\$ 73,911
Net income and			
comprehensive income	350	4,400	4,750
Contributions	-	41,448	41,448
Distributions	(5,966)	(5,055)	(11,021)
Balance, June 30, 2017	\$ -	\$ 109,088	\$ 109,088

1. NCI percentage in CCF IV LP increased from 60% to 65% effective January 1, 2017 and decreased from 65% to 63.5% effective July 1, 2017.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

## 13. Net change in non-cash working capital:

Six months ended June 30,	2018	2017
Accounts receivable	\$ (91)	\$ 1,030
Prepaid expenses	(4,648)	36
Accounts payable and accrued liabilities	(228)	(899)
Deferred interest revenue	-	1,729
Income taxes recoverable	(252)	131
Total	\$ (5,219)	\$ 2,027
Net change attributable to operating activities	(717)	2,816
Net change attributable to investing activities	(4,648)	-
Net change attributable to financing activities	146	(789)

## 14. Commitments:

The following is a summary of the Corporation's financial commitments as at June 30, 2018:

	1 Year	2-3 Years	4-5 Years	Total
Operating lease	\$ 131	\$ 262	\$ 251	\$ 644
Total	\$ 131	\$ 262	\$ 251	\$ 644

The Corporation's operating lease is comprised of a commitment to lease office space for a fixed term with no provision for early termination.

The Corporation, through Crown Private Credit Fund and CCF IV LP, had commitments to provide loan advances of \$10,000 and \$5,000, respectively, as at June 30, 2018, of which \$3,200 was attributable to non-controlling interests.

As at June 30, 2018 the Corporation, through Crown Power Fund, had committed to contracts valued at \$8,228 in relation to the construction of power generation assets, of which \$4,800 was funded, including \$4,648 of prepaid expenses and deposits and \$3,428 was unfunded.

The Corporation, through CCFC, has an aggregate commitment to provide funding to CCF IV and CCF IV Investment of \$6,600, as at June 30, 2018.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2018 and 2017

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

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## 15. Subsequent events:

Effective July 1, 2018, CCF IV LP was renamed to Crown Capital Partner Funding, LP (“Crown Partners Fund”).

On July 13, 2018, Crown Partners Fund completed a subsequent closing with subscriptions for an additional 75,000 limited partnership units at \$1,000 per unit, bringing the total capital committed to Crown Partners Fund to \$300.0 million. The Corporation, through CCFC, subscribed for an additional 29,090 partnership units, which increased its commitment to Crown Partners Fund to \$107.8 million (\$78.8 million as of June 30, 2018). This resulted in CCFC holding 107,840 units and an approximate 35.9% interest in Crown Partners Fund effective July 1, 2018 (June 30, 2018 – 35.0%). Of this commitment, \$72.4 million had been contributed as of June 30, 2018.

On July 13, 2018, CCF IV Investment completed a subsequent closing with subscriptions for an additional 600 limited partnership units at \$1,000 per unit, in which CCFC did not participate thereby reducing CCFC’s interest in CCF IV Investment to approximately 21.6% (June 30, 2018 – 22.5%). CCF IV Investment has an interest in Crown Partners Fund of approximately 5.4% (June 30, 2018 – 6.9%).

Including its investment in CCF IV Investment, Crown held an effective interest in Crown Partners Fund of 37.1%, effective July 1, 2018 (June 30, 2018 – 36.5%).

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# Corporate Directory

## DIRECTORS

**Alan Rowe**, CPA, CA  
Chair of the Board

**Robert Gillis**, CPA, CA  
Director

**Christopher A. Johnson**, CFA  
Director

**Larry Pollock**  
Director

**Glen Roane**, MBA, ICD.D  
Director

**Peter Snucins**  
Director

## OFFICERS

**Christopher A. Johnson**, CFA  
President and  
Chief Executive Officer

**Brent G. Hughes**, CFA  
Executive Vice President,  
Chief Compliance Officer

**Michael Overvelde**, CA, CPA, CFA  
Senior Vice President,  
Chief Financial Officer

**Tim Oldfield**, CA, CPA, CFA, CBV  
Senior Vice President,  
Chief Investment Officer

## SHAREHOLDER INFORMATION

### Stock Exchange Listing

The Company's common shares are listed on the Toronto Stock Exchange under the symbol "CRWN".

### Shareholder Inquiries

Inquiries regarding change of address, transfer requirements or lost certificates should be directed to the Company's transfer agent.

### Transfer Agent

TSX Trust Company  
1 (866) 393-4891 ext. 205 or  
TMXInvestorServices@tmx.com

### Legal Counsel

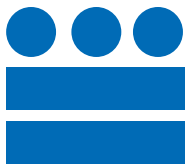
Torys LLP

### Auditors

KPMG LLP

## INVESTOR RELATIONS

Craig Armitage  
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craig.armitage@loderockadvisors.com



**Crown Capital Partners Inc.**

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