



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021**

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

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

Please refer to the Glossary of Terms beginning on page 47 which defines the names used throughout the MD&A in reference to operating companies, limited partnerships, portfolio companies and their respective subsidiaries and also defines certain performance measures that we use to measure our business.

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

# PART 1 – OUR BUSINESS

## BUSINESS OVERVIEW

Crown is an investment company that makes strategic investments, provides investment management services and co-invests in certain of our managed funds. We have operations and/or material investments in each of the specialty finance, network services, distributed power and real estate markets. In the distributed power market and, prior to July 13, 2021, in the specialty finance market, we act(ed) as both an asset manager of capital pools invested in alternative asset classes, and as a direct investor, including minority ownership interests in certain of our managed investment funds.

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

Our financial reporting features five reportable segments, as summarized below:

Reportable segments	Operations
Specialty finance	Includes our investments in Crown Partners Fund and in corporate debt and equity securities. Prior to July 13, 2021, we were also the investment manager of Crown Partners Fund.
Network services	Provision of network services to underserved markets across Canada in relation to the deployment and management of carrier-grade data networks.
Distributed power	Origination and management of, and investment in, distributed power investments held through Crown Power Fund.
Real estate	Ownership and development of real estate properties held through subsidiaries PSCC and PBC.
Corporate and other	Includes our credit reporting subsidiary, Lumbermens, in addition to assets, liabilities, revenues and expenses that do not pertain directly to other reportable segments.

A summary of information presented in respect of reportable segments as at and for the nine months ended September 30, 2021 is presented below:

AS AT AND FOR THE PERIOD ENDED SEP. 30, 2021 (THOUSANDS)	Reportable Segments					Total
	Specialty Finance	Network Services	Distributed Power	Real Estate	Corporate and Other	
Assets.....	\$ 55,334	\$ 19,191	\$ 32,569	\$ 28,180	\$ 15,764	\$ 151,038
Liabilities.....	3,990	9,329	174	13,660	25,961	53,114
Non-controlling interests.....	-	-	18,935	-	-	18,935
Net assets.....	51,344	9,862	13,460	14,520	(10,197)	78,989
Revenues.....	14,426	20,674	1,548	(130)	456	36,974
Segment income before depreceiation, other adjustments and income taxes.....	8,796	6,648	1,121	-	(5,547)	11,018
Depreciation.....	-	2,716	-	-	170	2,886
Segment income before other adjustments and income taxes.....	8,796	3,932	1,121	-	(5,717)	8,132

1. For more information, refer to Note 15 - *Segment information* of the condensed consolidated interim financial statements.

A summary of information presented in respect of reportable segments as at and for the nine months ended September 30, 2020 is presented below:

AS AT AND FOR THE PERIOD ENDED SEP. 30, 2020 (THOUSANDS)	Reportable Segments					Total
	Specialty Finance	Network Services	Distributed Power	Real Estate	Corporate and Other	
Assets.....	\$ 258,114	\$ 22,360	\$ 34,115	\$ -	\$ 14,232	\$ 328,821
Liabilities.....	47,752	9,155	4,099	-	44,314	105,320
Non-controlling interests.....	119,289	-	19,859	-	-	139,148
Net assets.....	91,073	13,205	10,157	-	(30,082)	84,353
Revenues.....	24,844	6,377	818	-	187	32,226
Segment income before depreceiation, other adjustments and income taxes.....	4,299	1,670	(485)	-	(4,873)	611
Depreciation.....	-	3,935	-	-	102	4,037
Segment income before other adjustments and income taxes.....	4,299	(2,265)	(485)	-	(4,975)	(3,426)

1. For more information, refer to Note 15 - *Segment information* of the condensed consolidated interim financial statements.

For discussion regarding each of our reportable segments, please refer to *Part 3 – Review of Operations* on page 25.

Prior to making our initial investments in each of the distributed power and network services markets in 2019, Crown had historically been 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. Specifically, Crown originated, structured and provided 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.

Through Crown Partners Fund, an investment fund in which Crown maintains a limited partnership interest and of which it is the general partner, Crown offered special situations financing solutions to businesses for transitory capital requirements, generally in the form of short- and medium-term senior or subordinated loans. Through its wholly owned subsidiary Crown Private Credit Fund, Crown deployed its own capital to clients seeking non-dilutive, long-term capital, generally in the form of traditional interest-bearing loans and royalties.

In May 2020, we announced our intention to improve the efficiency of our capital by shifting towards a capital-light business model, involving the planned reduction of ownership in Crown Partners Fund to a target of 20% or less, and by achieving liquidity in our lending portfolio, where possible. We intend to use the proceeds from such realizations to pursue strategic growth opportunities and to rationalize our capital structure.

Towards this end, effective March 31, 2021, we reduced our effective ownership interest in Crown Partners Fund from 38.8% to 36.5% through a sale of limited partnership units that achieved net proceeds to Crown of \$4.4 million that were applied as a partial repayment of the balance outstanding on the Preceding Crown Credit Facility. These limited partnership units were sold to third-party investors at a transaction price equal to fair value and resulted in the recognition of a nominal realized gain in the first quarter.

Also consistent with our change in strategic direction, effective July 13, 2021, we sold a majority stake in CPCP, our alternative lending fund management business, in which the Corporation retains a 12.5% ownership interest, and transferred to CPCP our investment management contracts in respect of Crown Partners Fund and CCF IV Investment LP. This transaction also included a partial sale of our limited partnership interest in Crown Partners Fund, reducing our effective ownership position from 36.5% to 28.0%, for proceeds of \$16.3 million which were applied as a partial repayment of the balance outstanding on the Crown Credit Facility. These limited partnership units were sold at a transaction price equal to fair value. As a result of these transactions, effective as of July 13, 2021, we discontinued consolidating Crown Partners Fund as a subsidiary and we recognized a \$1.6 million gain on derecognition of subsidiary including \$0.4 million from the partial sale of our interest in Crown Partners Fund and \$1.2 million recognized in relation to the remeasurement of our retained interest at fair value. As of July 13, 2021, our effective 28.0% interest in Crown Partners Fund is recognized as an investment in associate accounted for using the equity method.

## **BASIS OF CONSOLIDATION**

All entities that we control are consolidated for financial reporting purposes. Certain contractual arrangements also provide us with the irrevocable ability to direct the activities of managed funds such that we are deemed to control entities in which we hold only a minority economic interest. As a result, we include 100% of the revenues and expenses of these entities in our Consolidated Statements of Comprehensive Income (Loss), even though a substantial portion of net income of certain of these subsidiaries is attributable to non-controlling interests. Furthermore, we include all assets and liabilities of these entities in our Consolidated Statements of Financial Position and include the portion of equity held by others as non-controlling interests.

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

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

Crown consolidates 100% of its approximate 43.2% interest in Crown Power Fund (December 31, 2020 – 43.2%), its 100% interest in Crown Private Credit Fund (December 31, 2020 – 100%) and, prior to July 13, 2021, its approximate 36.5% effective interest in Crown Partners Fund (December 31, 2020 – 38.8%) and reflects the interests of other investors in these funds, if any, as non-controlling interests.

Whereas we had previously consolidated Crown Partners Fund as a subsidiary, upon the assignment of the management contract effective as of July 13, 2021, the assets and liabilities of Crown Partners Fund and any related non-controlling interests were derecognized and the consolidation of its financial performance was discontinued with

our retained interest in Crown Partners Fund subsequently recognized as an investment in associate accounted for using the equity method.

Crown's 28.0% effective interest in Crown Partners Fund as at September 30, 2021 includes its 26.8% direct interest in Crown Partners Fund in addition to its 19.8% interest in CCF IV Investment LP, whose net assets are comprised solely of a 5.6% interest in Crown Partners Fund. Our effective interest in Crown Partners Fund was 38.8% from December 31, 2019 to March 30, 2021 and 36.5% from March 31, 2021 to July 13, 2021.

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

Crown holds an effective interest of 85.8% in Onsite Power, including a direct 75% interest in addition to a 25% interest held through Crown Power Fund.

Crown holds a 100% interest in WireIE and its wholly owned subsidiaries, WireIE Canada and WireIE Development Inc.

Effective September 10, 2020, Crown holds a 100% interest in WireIE Inc.

Effective September 15, 2020, Crown acquired a 100% interest in Galaxy.

Effective September 28, 2020, Crown holds a 100% interest in PenEquity Development GP Inc., the general partner of PDLP.

Effective September 30, 2020, through Crown Private Credit Fund, Crown holds a 100% interest in PDLP.

Effective March 1, 2021, through PDLP, Crown acquired a 100% interest in PSCC.

Effective July 13, 2021, Crown holds a 12.5% interest in CPCP. From April 8, 2021 to July 13, 2021, Crown held a 100% interest in CPCP.

Effective April 15, 2021, through PDLP, Crown acquired a 100% interest in PBC.

Effective May 6, 2021, through Crown Private Credit Fund, Crown acquired a 100% interest in Lumbermens.

The financial results of the Corporation as at and for the three and nine months ended September 30, 2021 discussed in this MD&A include the results of operations of CCF III, CCFC, Crown Partners Fund as a consolidated subsidiary until July 13, 2021 and as an equity-accounted associate thereafter, Crown Partners Fund GP, Crown Power Fund, Crown Power GP, Crown Private Credit Fund, Onsite Power, WireIE and its wholly owned subsidiaries WireIE Canada and WireIE Development Inc, WireIE Inc. from the date of its incorporation on September 10, 2020, Galaxy from the date of its acquisition on September 15, 2020, PenEquity Development GP Inc. from the date of its incorporation on September 28, 2020, PDLP from the date of its registration on September 30, 2020, PSCC from the date of its acquisition on March 1, 2021, CPCP from the date of its incorporation on April 8, 2021 until its derecognition as a subsidiary effective July 13, 2021, PBC from the date of its acquisition on April 15, 2021 and Lumbermens from the date of its acquisition on May 6, 2021.

## PART 2 – REVIEW OF CONSOLIDATED FINANCIAL RESULTS

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

### OVERVIEW

For the three and nine months ended September 30, 2021, we recognized net income (loss) and comprehensive income (loss) of \$0.8 million and \$1.8 million compared with \$(8.2) million and \$(11.0) million in three- and nine-month periods ended September 30, 2020, respectively.

Highlights in respect of our earnings for the three months ended September 30, 2021 include the following:

- Effective July 13, 2021, in connection with a series of transactions that involved a divestment of 87.5% of our 100% interest in CPCP, the transfer of the investment management contracts in relation to our managed credit funds to CPCP, and a partial sale of our limited partnership interest in Crown Partners fund that reduced our effective ownership of that fund from 36.5% to 28.0%, we derecognized Crown Partners Fund as a subsidiary and recognized it as an investment in associate accounted for using the equity method. As a result, many of our asset, liability, revenue and expense amounts as at and for the three months ended September 30, 2021 are not directly comparable to equivalent balances for prior periods.
- Upon the derecognition of Crown Partners Fund as a subsidiary, a gain of \$1.2 million was recognized in relation to the remeasurement of our retained interest in Crown Partners Fund to fair value. Additionally, a gain of \$0.4 million was realized in relation to the partial sale of our limited partnership interest in Crown Partners Fund. Collectively, we recognized a total gain on derecognition of subsidiary of \$1.6 million in the third quarter.
- Our Network Services segment contributed net income before income taxes of \$1.1 million (2020 – net loss before income taxes of \$0.6 million), inclusive of depreciation and amortization expense totaling \$0.9 million (2020 - \$1.0 million), with the year-over-year improvement attributable to the acquisition of Galaxy in September 2020 and to its subsequent growth in profitability.
- General and administrative expenses declined to \$0.7 million (2020 - \$1.2 million) primarily due to a reduction in the level of legal and professional fees incurred, and we recognized a share-based compensation recovery of \$0.05 million due to a net recovery recognized in connection with the cancellation of the MTPU plan and of all unvested MTPUs in the period.
- The carrying value of the lease earn-out receivable declined by \$1.8 million in the quarter to \$4.4 million, with the change owing to a reduction in the estimated value of the cash flows to which PSCC is entitled in relation to the lease-up of a grocery-anchored community retail plaza located in Hamilton, Ontario. This is recognized as a loss on remeasurement of financial instruments which, together with a \$(0.2) million remeasurement of the contingent consideration liability, totaled \$2.0 million in the third quarter.

Adjusted Funds from Operations for the three months ended September 30, 2021 of \$2.4 million were consistent with \$2.4 million earned in the three months ended September 30, 2021. Compared with the prior-year period, amounts included in respect of our interest in Crown Partners Fund declined due to the derecognition of the fund as a subsidiary, to a reduction in the balance of the fund's investments and to a reduction in Crown's percentage ownership of the fund, and the aggregate impact of this was generally offset by an increase in Adjusted Funds from Operations attributable to our network services business following the acquisition of Galaxy in September 2020. Note that in determining Adjusted Funds from Operations for the current year period, we excluded our share of earnings of Crown Partners Fund attributable to our limited partnership interest of \$1.6 million and included distributions of \$1.1 million paid to us by Crown Partners Fund, which does not represent a full distribution of earnings attributable to its limited partners and does not include earnings in respect of our general partnership interest.

## INCOME STATEMENT ANALYSIS

The following table summarizes the financial results of the Corporation for the three and nine months ended September 30, 2021, and 2020:

FOR THE PERIODS ENDED SEP 30 (THOUSANDS)	Three Months Ended			Nine Months Ended		
	2021	2020	Change	2021	2020	Change
<b>Revenues</b>						
Network services revenue.....	\$ 7,445	\$ 2,526	\$ 4,919	\$ 20,674	\$ 6,377	\$ 14,297
Interest revenue.....	278	6,878	(6,600)	13,235	21,435	(8,200)
Share of earnings of Crown Partners Fund.....	1,959	-	1,959	1,959	-	1,959
Fees and other income.....	151	304	(153)	1,342	1,420	(78)
Net realized gain from investments.....	-	-	-	86	1,233	(1,147)
Net change in unrealized gains (losses) of investments.....	-	2,884	(2,884)	(322)	1,801	(2,123)
Total revenue	<b>9,833</b>	<b>12,592</b>	<b>(2,759)</b>	<b>36,974</b>	<b>32,266</b>	<b>4,708</b>
<b>Expenses</b>						
Salaries and benefits.....	(2,790)	(1,269)	(1,521)	(6,444)	(3,601)	(2,843)
Share-based compensation.....	46	(394)	440	(593)	(594)	1
Performance bonus expense.....	(172)	(562)	390	(751)	(820)	69
General and administration.....	(710)	(1,231)	521	(2,480)	(2,680)	200
Cost of network services revenue.....	(3,209)	(1,159)	(2,050)	(9,480)	(2,638)	(6,842)
Depreciation.....	(1,026)	(1,034)	8	(2,886)	(4,037)	1,151
Provision for bad debt.....	-	-	-	(81)	-	(81)
Provision for credit losses.....	(19)	(11,153)	11,134	(2,380)	(15,399)	13,019
Impairment of property and equipment.....	(166)	(24)	(142)	(237)	(47)	(190)
Impairment of distributed power equipment under development and related deposits.....	-	(357)	357	-	(1,057)	1,057
Finance costs.....	(669)	(1,561)	892	(3,510)	(4,819)	1,309
Total expenses	<b>(8,715)</b>	<b>(18,744)</b>	<b>10,029</b>	<b>(28,842)</b>	<b>(35,692)</b>	<b>6,850</b>
<b>Income before other adjustments</b>						
and income taxes.....	1,118	(6,152)	7,270	8,132	(3,426)	11,558
Gain on acquisition.....	-	-	-	73	-	73
Gain on derecognition of subsidiary.....	1,588	-	1,588	1,588	-	1,588
Remeasurement of financial instruments.....	(2,046)	-	(2,046)	(2,046)	-	(2,046)
Non-controlling interests.....	(131)	(4,723)	4,592	(6,247)	(10,453)	4,206
Income tax recovery (expense).....	315	2,692	(2,377)	310	2,852	(2,542)
Net income (loss) and comprehensive income (loss).....	<b>844</b>	<b>(8,183)</b>	<b>9,027</b>	<b>1,810</b>	<b>(11,027)</b>	<b>12,837</b>
<b>Net income (loss) per share attributable</b>						
to Shareholders - basic.....	<b>\$ 0.10</b>	<b>\$ (0.88)</b>	<b>\$ 0.98</b>	<b>\$ 0.20</b>	<b>\$ (1.18)</b>	<b>\$ 1.38</b>
<b>Net income (loss) per share attributable</b>						
to Shareholders - diluted.....	<b>\$ 0.10</b>	<b>\$ (0.87)</b>	<b>\$ 0.97</b>	<b>\$ 0.20</b>	<b>\$ (1.17)</b>	<b>\$ 1.37</b>



## Network Services Revenue

Through its wholly owned subsidiaries WireIE Inc., and Galaxy, which was acquired in September 2020, the Corporation earns revenue in relation to the provision of network services. Network services revenue is comprised of contractual revenue related to the access and usage of telecommunications infrastructure in addition to revenue from professional services, network support, maintenance and repair services, and hardware sales. The Corporation's revenues in the three and nine months ended September 30, 2021 include network services revenue of \$7.4 million and \$20.7 million, respectively (2020 - \$2.5 million and \$6.4 million). The year-over-year increase is largely the result of the recognition of three full quarters of network services revenue from Galaxy in the nine-months ended September 30, 2021 following its acquisition in September 2020.

The vast majority of network services revenue is contractual revenue in relation to the access and usage of telecommunications infrastructure comprised of both up-front payments by the customer related to the installation of network elements, which are deferred and recognized on a straight line basis over the life of the contract, and monthly recurring revenues relating to the ongoing operation of network services that are recognized as the service is rendered over the term of the arrangement.

## Interest Revenue

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Attributable to Shareholders							
	Three Months		Nine Months		Three Months		Nine Months	
	2021	2020	2021	2020	2021	2020	2021	2020
Interest revenue								
Crown Partners Fund.....	\$ -	\$ 6,451	\$ 11,776	\$ 18,903	\$ -	\$ 2,501	\$ 4,435	\$ 7,329
Crown Private Credit Fund.....	-	102	-	1,748	-	102	-	1,748
Crown Power Fund.....	278	325	1,459	784	120	140	630	338
<b>Total interest revenue.....</b>	<b>\$ 278</b>	<b>\$ 6,878</b>	<b>\$ 13,235</b>	<b>\$ 21,435</b>	<b>\$ 120</b>	<b>\$ 2,743</b>	<b>\$ 5,065</b>	<b>\$ 9,415</b>

Interest revenue totaled \$0.3 million and \$13.2 million in the three and nine months ended September 30, 2021 compared with \$6.9 million and \$21.4 million in the three and nine months ended September 30, 2020 and was comprised of:

- interest revenue of \$nil and \$11.8 million earned by Crown Partners Fund (2020 - \$6.5 million and \$18.9 million), with the year-over-year decrease due to the derecognition of Crown Partners Fund as a subsidiary of Crown effective July 13, 2021 and to a year-over-year decrease in the average level of interest-yielding investments for the period from January 1, 2021 to July 13, 2021;
- interest revenue of \$nil and \$nil earned by Crown Private Credit Fund (2020 - \$0.1 million and \$1.7 million), with the year-over-year decrease resulting from the decision to stop accruing interest revenue in respect of the PenEquity and Mill Street loans beginning in the second and third quarters of 2020, respectively; and
- interest revenue of \$0.3 million and \$1.5 million recognized by Crown Power Fund (2020 - \$0.3 million and \$0.8 million), comprised of interest earned on net investment in leased distributed power equipment and interest capitalized to distributed power equipment under development and related deposits that will be subsequently recovered through receipt of lease payments over the duration of lease contracts in relation to such assets. The year-over-year increase for the nine-month period is primarily the result of a year-over-year increase in the average level of interest-yielding investment in leased distributed power equipment. The year-over-year decrease in the three-month period is due to the sale of \$10.0 million of power generation assets under development in the second quarter of 2021.

In accordance with International Financial Reporting Standard (“IFRS”) 9, interest revenue on loan investments carried at amortized cost is calculated using the effective interest rate method and includes an amortization component which totaled \$nil and \$0.5 million in the three and nine months ended September 30, 2021 (2020 - \$1.0 million and \$2.4 million).

Of total consolidated interest revenue, \$0.1 million and \$5.1 million was attributable to Shareholders in the three and nine months ended September 30, 2021 compared with \$2.7 million and \$9.4 million in the three and nine months ended September 30, 2020.

### ***Share of Earnings of Crown Partners Fund***

Effective July 13, 2021, we derecognized Crown Partners Fund as a subsidiary of the Corporation and began recognizing our investment in Crown Partners Fund as an investment in associate accounted for using the equity method. Accordingly, for the period beginning July 13, 2021, we have recognized as a revenue item our share of earnings of Crown Partners Fund, which is comprised of our proportionate share of the reported earnings of Crown Partners Fund in respect of each of our limited partnership and general partnership interests in that fund.

For the three and nine months ended September 30, 2021, share of earnings of Crown Partners Fund totaled \$2.0 million and \$2.0 million, respectively (2020 - \$nil and \$nil), of which \$1.6 million is in respect of our effective ownership of 28.0% of the limited partnership units of Crown Partners Fund, and \$0.3 million is in respect of our general partnership interest in the fund and which represents the change during the period in the accrued value of the performance fee that Crown, as general partner, will be entitled to receive. If our interest in Crown Partners Fund had been accounted for on a similar basis in prior periods, i.e., as an investment in associate using the equity method, our share of earnings of Crown Partners Fund for the three months ended September 30, 2020 would have been \$4.2 million, with the year-over-year decrease the result of a lesser amount of earnings attributable to our general partnership interest, a larger net investment gain recorded in the prior-year period and a reduction in the average level of invested assets.

We provide additional detail regarding the share of earnings of Crown Partners Fund in *Note 5 – Investment in Crown Partners Fund* of the condensed consolidated interim financial statements.

## Fees and Other Income

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Attributable to Shareholders							
	Three Months		Nine Months		Three Months		Nine Months	
	2021	2020	2021	2020	2021	2020	2021	2020
Transaction fees and other income <u>received</u> :								
Crown Partners Fund.....	\$ -	\$ 80	\$ 15	\$ 1,487	\$ -	\$ 31	\$ 6	\$ 576
Crown <sup>1</sup> .....	-	-	-	355	-	-	-	355
	-	80	15	1,842	-	31	6	931
Less: Transaction fees <u>deferred</u> in relation to investments carried at amortized cost								
Crown Partners Fund.....	-	-	-	(923)	-	-	-	(358)
Crown.....	-	-	-	(355)	-	-	-	(355)
Transaction fees and other income <u>recognized</u> .....	-	80	15	564	-	31	6	218
Royalty and other revenue.....	25	186	827	727	25	72	327	282
Other interest income <sup>2</sup> .....	38	21	165	78	34	19	114	59
Credit reporting income <sup>3</sup> .....	88	-	308	-	88	-	308	-
Management fee revenue <sup>4,5</sup> .....	-	17	27	51	-	17	28	51
<b>Total fees and other income.....</b>	<b>\$ 151</b>	<b>\$ 304</b>	<b>\$ 1,342</b>	<b>\$ 1,420</b>	<b>\$ 147</b>	<b>\$ 139</b>	<b>\$ 783</b>	<b>\$ 610</b>

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

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

3. Credit reporting income is income earned in relation to credit reporting services provided by Lumbergmens following its acquisition on May 6, 2021.

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

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

In the three and nine months ended September 30, 2021, we recognized fees and other income totaling \$0.2 million and \$1.3 million (2020 - \$0.3 million and \$1.4 million), comprised primarily, for the nine-month period, of royalty and other revenue of \$0.8 million (2020 - \$0.7 million). Compared with the prior-year period, fees and other income decreased in the nine months ended September 30, 2021 due mainly to derecognition of Crown Partners Fund as a subsidiary effective July 13, 2021 and to a year-over-year decrease in the level of fee income recognized by Crown Partners Fund in the period from January 1, 2021 to July 13, 2021, partially offset by the recognition of credit reporting services income earned by Lumbergmens following its acquisition on May 6, 2021.

Of total consolidated fees and other income recognized in the three and nine months ended September 30, 2021, \$0.1 million and \$0.8 million was attributable to Shareholders, compared with \$0.1 million and \$0.6 million in 2020.

### *Transaction fees and other income received but not recognized as revenue in the period*

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

Whereas in the three and nine months ended September 30, 2020 we received \$nil and \$1.3 million of transaction fees in relation to loans carried at amortized cost that were not recognized as fee income in those periods, including \$0.5 million of other fees capitalized to loan principal value, no such fees were received in the nine months ended September 30, 2021. Due to our derecognition of Crown Partners Fund as a subsidiary and to our intention to achieve

liquidity in our lending portfolio, we do not expect to receive transaction fees in relation to new lending activity in the future.

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

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Attributable to Shareholders							
	Three Months		Nine Months		Three Months		Nine Months	
	2021	2020	2021	2020	2021	2020	2021	2020
Net realized gains (losses) on investments								
Crown Partners Fund.....	\$ -	\$ -	\$ 197	\$ 1,233	\$ -	\$ -	\$ 100	\$ 477
Crown Private Credit Fund.....	-	-	(130)	-	-	-	(130)	-
Crown <sup>1</sup> .....	-	-	19	-	-	-	19	-
<b>Total realized gains (losses)</b> .....	<b>-</b>	<b>-</b>	<b>86</b>	<b>1,233</b>	<b>-</b>	<b>-</b>	<b>(11)</b>	<b>477</b>
Net unrealized gains (losses) on investments								
Crown Partners Fund.....	-	3,578	1,515	2,399	-	1,387	539	931
Crown Private Credit Fund.....	-	(690)	-	(690)	-	(690)	-	(690)
Crown <sup>1</sup> .....	-	(4)	(1,837)	92	-	(4)	(1,837)	92
<b>Total unrealized gains (losses)</b> .....	<b>-</b>	<b>2,884</b>	<b>(322)</b>	<b>1,801</b>	<b>-</b>	<b>693</b>	<b>(1,298)</b>	<b>333</b>
Total net gains (losses) on investments.....	<b>\$ -</b>	<b>\$ 2,884</b>	<b>\$ (236)</b>	<b>\$ 3,034</b>	<b>\$ -</b>	<b>\$ 693</b>	<b>\$ (1,309)</b>	<b>\$ 810</b>

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

In the three and nine months ended September 30, 2021, we recognized net losses on investments of \$nil and \$0.2 million (2020 – net gains of \$2.9 million and \$3.0 million) of which net losses of \$nil and \$1.3 million were attributable to Shareholders (2020 – net gains of \$0.7 million and \$0.8 million).

There were no realized or unrealized gains or losses on investments in the three months ended September 30, 2021 due to the derecognition of Crown Partners Fund as a subsidiary effective July 13, 2021 and to consistency in the fair values of our investments that are measured at fair value through profit or loss.

The net unrealized loss on investment for the nine months ended September 30, 2021 of \$(0.3) million (2020 – net unrealized gain of \$1.8 million) is comprised of an unrealized loss of \$(1.8) million recorded in the second quarter in respect of the Mill Street loan, and a net unrealized gain of \$1.5 million in respect of various investments of Crown Partners Fund for the period from January 1, 2021 to July 13, 2021 while it was a subsidiary of Crown.

### ***Expenses***

For the three and nine months ended September 30, 2021:

Salaries and benefits expense increased by \$1.5 million and \$2.8 million in the three and nine months ended September 30, 2021 to \$2.8 million and \$6.4 million, respectively, including \$1.9 million and \$4.1 million attributable to Network Services businesses, respectively. Net of the additional expense related to Galaxy and Lumbersmens, which were acquired in September 2020 and May 2021, respectively, salaries and benefits expense decreased by \$0.03 million in the three months ended September 30, 2021 and by \$0.4 million in the nine months ended September 30, 2021 due primarily to a reduction in employee headcount and executive salaries. Effective July 13, 2021, two executives formerly employed by the Corporation in connection with our alternative lending operations resigned to join CPCP.

Share-based compensation expense includes amounts recognized over the expected vesting period of each award in addition to changes in the carrying value of liabilities in relation to director deferred share units (“**DDSUs**”) and medium-term performance units (“**MTPUs**”) which are influenced by changes in the trading price of Common Shares. For the three months ended September 30, 2021, share-based compensation expense was a net recovery of \$(0.05) million, comprised primarily of a net recovery recognized in connection with the settlement of obligations under the MTPU Plan and cancellation of all unvested MTPUs in the period, which was partially offset by costs recognized in

respect of outstanding DDSUs, including a \$0.1 million impact of the increase in trading price of Common Shares on the valuation of DDSUs. Share-based compensation for the nine months ended September 30, 2021 was consistent year-over year, with the impact of an increase in the trading price of Common Shares on the valuation of MTPUs and DDSUs generally offset by recoveries recognized this year in relation to the expiration of unvested performance share units and the cancellation of unvested MTPUs. Additional information about share-based compensation can be found in *Note 7, Share-based compensation* in the Corporation's condensed consolidated interim financial statements.

The Corporation has asset performance bonus pool (“APBP”) arrangements for certain individuals, primarily employees (“APBP Participants”). For certain investment funds for which the Corporation is the general partner, the Corporation will be entitled to receive performance fee distributions, as determined in accordance with the respective limited partnership agreements, commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners of the related investment funds. The Corporation's current compensation policy provides that 50% of such performance fees will be distributed to APBP Participants with the other 50% retained by the Corporation. The portion of accrued performance fees that pertains to APBP Participants is recognized on the Corporation's balance sheet as a provision for performance bonus, and the change in the provision for performance bonus during a period is recognized as a performance bonus expense or recovery. In the three and nine months ended September 30, 2021, we recognized a performance bonus expense of \$0.2 million and \$0.8 million, respectively (2020 – \$0.6 million and \$0.8 million) reflecting a change in the level of accrued performance fee relating to Crown Partners Fund based on the performance of its investments in 2021. The Corporation, through its 100%-owned subsidiary Crown Partners Fund GP, remains the general partner of Crown Partners Fund and, as such, will be entitled to receive any performance fee distribution paid by Crown Partners Fund.

General and administration expenses include costs such as legal and audit fees, travel, promotion, occupancy costs, insurance, office administration and other costs. General and administration expenses totaled \$0.7 million and \$2.5 million in the three and nine months ended September 30, 2021 (2020 - \$1.2 million and \$2.7 million). Included in general and administration expenses in the nine months ended September 30, 2021 is a net recovery of \$0.2 million in relation to the extinguishment of accounts payable and accrued liabilities in respect of WireIE (Canada) Inc. following its bankruptcy and legal discharge of remaining obligations outstanding. Excluding this \$0.2 million recovery and amounts in relation to the acquired Galaxy and Lumbermens businesses, general and administration expenses for the three and nine months ended September 30, 2021 decreased by \$0.8 million and \$0.5 million, respectively, relative to the prior comparative periods, largely on account of a \$0.05 million decrease in professional and legal fees in both periods and, in respect of the year-over-year decrease in the current quarter, to the derecognition of Crown Partners Fund effective July 13, 2021.

Through its Network Services businesses, the Corporation incurs costs directly related to the generation of revenue earned in relation to the provision of network services. For the three and nine months ended 2021, the cost of network services revenue totaled \$3.2 million and \$9.5 million (2020 - \$1.2 million and \$2.6 million), primarily comprised of bandwidth fees of \$2.7 million and \$7.8 million in the three and nine months ended September 30, 2021, respectively. Other contributors to the cost of network services revenue include network equipment maintenance costs of \$0.2 million and \$0.8 million in the three and nine months ended September 30, 2021, respectively. The increase compared with the comparable prior-year period relates to the acquisition of Galaxy in September 2020.

In the three and nine months ended September 30, 2021, depreciation expense totaled \$1.0 million and \$2.9 million compared to \$1.0 million and \$4.0 million in the three and nine months ended September 30, 2020, and was comprised primarily of:

- depreciation of the right-of-use assets associated with network services equipment, property and vehicle lease arrangements of Network Services businesses totaling \$0.3 million and \$0.7 million (2020 - \$0.3 million and \$0.9 million);
- depreciation of network services equipment totaling \$0.3 million and \$1.0 million (2020 - \$0.4 million and \$2.0 million);

- depreciation of office and other equipment totaling \$0.1 million and \$0.3 million (2020 - \$0.07 million and \$0.1 million); and
- amortization of \$0.3 million and \$0.9 million, respectively, in relation to network services contracts recognized as intangible assets with finite useful lives in connection with the WireIE and Galaxy acquisitions (2020 - \$0.3 million and \$1.0 million).

The provision for credit losses in the three and nine months ended September 30, 2021 totaled \$0.02 million and \$2.4 million, respectively, reflecting decreases of \$11.1 million and \$13.0 million compared with the respective periods in 2020. The provision for the nine-month period relates primarily to the Corporation's loan to PenEquity and to a loan investment of Crown Partners Fund; partially offset by a recovery of credit losses on settlement of a portion of the PenEquity loan at the time of acquisition of PSCC, resulting in the reclassification of a previously-recognized allowance for credit loss as a realized loss in the nine-month period.

For financial assets, including debt investments, carried at amortized cost, the Corporation determines expected credit losses in accordance with IFRS 9 which, cumulatively, represent an allowance for credit losses that is deducted in determining the net amortized cost, and therefore the carrying value, of such assets. The provision for credit losses primarily reflects changes in the allowance for credit losses resulting from factors such as the addition or repayment of financial assets carried at amortized cost or revisions to the expected credit losses for existing assets carried at amortized cost. In determining the allowance for credit losses in respect of financial assets carried at amortized cost, we have considered the potential impact of the COVID-19 pandemic on our assumptions regarding probability of default and loss given default and it did not materially affect our provision for credit losses except with respect to the PenEquity loan in periods prior to the three months ended September 30, 2021.

Finance costs totaled \$0.7 million and \$3.5 million in the three and nine months ended September 30, 2021, respectively, reflecting a decrease of \$0.9 million and \$1.3 million compared to 2020, and were comprised primarily of:

- current period interest accruals, standby fees and the amortization of deferred financing costs related to the Preceding Crown Credit Facility and the Crown Credit Facility totaling \$0.2 million and \$1.2 million (2020 - \$0.6 million and \$1.6 million), with the year-over-year decrease due to a lower average level of debt outstanding in relation to these facilities;
- current period interest accruals, standby fees and the amortization of deferred financing costs related to the CCPF Credit Facility of \$nil and \$0.8 million (2020 - \$0.5 million and \$1.5 million), with the year-over-year decrease due to a lower average level of debt outstanding in respect of this facility;
- interest expense and the amortization of deferred finance costs in relation to the Convertible Debentures, determined using the effective interest rate method as these debentures are measured at amortized cost, of \$0.4 million and \$1.2 million (2020 - \$0.4 million and \$1.2 million); and
- interest in relation to right-of-use lease arrangements totaling \$0.1 million and \$0.3 million (2020 - \$0.1 million and \$0.3 million).

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

## ***Income Taxes***

We recorded an aggregate income tax expense (recovery) of \$(0.3) million and \$(0.3) million in three and nine months ended September 30, 2021, respectively (2020 – (\$2.7) million and (\$2.9) million). Included in aggregate income tax expense (recovery) in the three and nine months ended September 30, 2021 is a current tax expense (recovery) of (\$0.2) million and \$0.4 million, respectively (2020 – current tax recovery of \$2.3 million and \$2.5 million) and deferred tax recovery of \$0.1 million and \$0.7 million, respectively (2020 – deferred tax recovery of \$0.4 million and \$0.4 million).

For the three and nine months ended September 30, 2021, the amortization of intangible assets in relation to Galaxy and Lumbermens, losses relating to WireIE and non-cash share-based compensation expense were not deductible for purposes of determining current income tax expense.

The Corporation's consolidated statutory tax rate for the three and nine months ended September 30, 2021 on earnings before income taxes attributable to Shareholders was 25.1% (2020 – 26.5%). Certain of our operations are held in partially owned "flow through" limited partnerships, and any tax liability is incurred by the investors as opposed to the entity. As a result, while our consolidated earnings include income attributable to non-controlling ownership interests in these entities, our consolidated tax provision includes only income tax on our proportionate share of the income of these entities. In other words, we are consolidating all of the net income, but only our share of the associated tax provision.

The deferred income tax liability at September 30, 2021 of \$0.5 million (December 31, 2020 – deferred income tax liability \$0.4 million) and deferred tax expense (recovery) for the three and nine months ended September 30, 2021 result primarily from the recognition of deferred tax liabilities assumed as part of the PSCC and Lumbermens acquisitions; partially offset by the accrual in relation to DDSUs, financing costs associated with the IPO, the Crown Credit Facility and the Convertible Debentures which are deductible for tax purposes over a five-year period, the income tax impact of financing fees on debt instruments previously recognized as income under International Accounting Standard 39 that were reversed upon transition to IFRS 9, performance bonus expenses which are not deductible for tax purposes until they are paid in future periods, the portion of the provision for credit losses that is not deductible in the current period for tax purposes, tax differences on lease income, book values in excess of tax undepreciated capital cost pools relating to property and equipment and non-capital losses available for carry-forward to the extent they are supported by the expectation of future taxable profits.

## BALANCE SHEET ANALYSIS

The following table summarizes the statement of financial position of the company as at September 30, 2021 and December 31, 2020:

AS AT SEP. 30 2021 AND DEC. 31 2020 (THOUSANDS)	2021	2020	Change
<b>Assets</b>			
Cash and cash equivalents.....	\$ 16,136	\$ 19,150	\$ (3,014)
Accounts receivable and other assets.....	11,457	13,269	(1,812)
Lease earn-out note receivable.....	4,447	-	4,447
Investments.....	2,557	246,063	(243,506)
Investment in Crown Partners Fund.....	52,802	-	52,802
Credit reporting customer contracts.....	953	-	953
Network services contracts.....	5,270	6,186	(916)
Property and equipment.....	15,389	15,951	(562)
Net investment in leased power distribution equipment.....	9,648	9,166	482
Property and equipment under development and related deposits.....	32,379	16,038	16,341
<b>Total assets</b>	<b>\$ 151,038</b>	<b>\$ 325,823</b>	<b>\$ (174,785)</b>
<b>Liabilities</b>			
Accounts payable and other liabilities.....	\$ 14,787	\$ 15,460	\$ (673)
Network services vendor note payable .....	749	1,321	(572)
Lease obligations.....	2,277	3,280	(1,003)
Mortgages payable.....	12,450	-	12,450
Provision for performance bonus.....	3,990	3,239	751
Credit facilities.....	(368)	62,911	(63,279)
Convertible debentures - liability component.....	19,229	18,932	297
Non-controlling interests.....	18,935	139,506	(120,571)
<b>Equity</b>			
Share capital.....	72,105	77,470	(5,365)
Convertible debentures - equity component.....	483	483	-
Contributed surplus.....	15,177	15,716	(539)
Deficit .....	(8,776)	(12,495)	3,719
<b>Total equity.....</b>	<b>78,989</b>	<b>81,174</b>	<b>(2,185)</b>
	<b>\$ 151,038</b>	<b>\$ 325,823</b>	<b>\$ (174,785)</b>



## September 30, 2021 vs. December 31, 2020

Consolidated assets at September 30, 2021 were \$151.0 million, a decrease of \$174.8 million since December 31, 2020. This decrease was due primarily to the derecognition of Crown Partners Fund as a subsidiary of the Corporation effective July 13, 2021, at which point the assets, liabilities and non-controlling interest balance related to Crown Partners Fund were derecognized from our consolidated balance sheet, with our interest in Crown Partners Fund now represented by the investment in Crown Partners Fund asset. Whereas Crown Partners Fund had accounted for \$233.0 million of total assets as at December 31, 2021, the investment in Crown Partners Fund balance as at September 30, 2021 was \$52.8 million, with the difference between these balances accounting for \$180.2 million of the year-to-date reduction in total assets.

### *Assets*

Cash and cash equivalents of \$16.1 million as at September 30, 2021 decreased by \$3.0 million compared to the prior year end. Net of the derecognition of \$8.2 million of cash upon the derecognition of Crown Partners Fund as a subsidiary, cash and cash equivalents increased by \$5.2 million in the nine months ended September 30, 2021. For further information, refer to our condensed consolidated interim statements of cash flows and to *Part 4 – Capitalization and Liquidity*.

Accounts receivable and other assets of \$11.5 million as at September 30, 2021 (December 31, 2020 - \$13.3 million) consists of accounts receivable, income taxes recoverable, prepaid expenses and deposits, inventory and goodwill. The largest component, accounts receivable, is comprised primarily of distributions receivable from Crown Partners Fund, share purchase loans, amounts receivable in relation to network services contracts and management fees receivable from NCOF LP.

Share purchase loans are board-approved loans advanced to senior management (“**Share Purchase Plan Participants**”) for the purpose of purchasing Common Shares in the open market and are advanced by both a third-party financial institution and the Corporation. As at September 30, 2021, \$0.6 million of these loans were outstanding to the Corporation (December 31, 2020 – \$0.4 million). Share purchase loans bear interest at Prime (2.45% as at September 30, 2021) and are personally guaranteed by Share Purchase Plan Participants.

Accounts receivable and other assets decreased by \$1.8 million primarily due to the derecognition of the receivables of Crown Partners Fund upon its derecognition as a subsidiary in July 2021, the receipt of \$3.1 million of proceeds received by Crown Power Fund in the nine months ended September 30, 2021 in respect of GST/HST amounts recoverable and a reduction in income taxes recoverable of \$0.9 million, which was partially offset by the inclusion of distributions receivable from Crown Partners Fund of \$1.1 million for the first time as at September 30, 2021, the addition of \$0.9 million and \$0.3 million of accounts receivable and prepaid expenses of PSCC and Lumbermens, respectively, upon their acquisitions in March 2021 and May 2021, and the addition of \$1.3 million of receivables related to PBC following its asset acquisition in April 2021.

The lease earn-out note receivable acquired in connection with the acquisition of PSCC in March 2021 represents entitlements to future cash flows in respect of PSCC’s sale of its interest in a grocery-anchored community retail plaza located in Hamilton, Ontario adjacent to PSCC’s property under development. The entitlements to future cash flows are contingent on PSCC securing leases in respect of a prescribed area of available density on or before September 30, 2021 and are valued using the discounted present value of expected cash flows arising from expected future earnings in respect of those leases secured. As at September 30, 2021, the fair value of the lease earn-out receivable was reassessed to reflect the status of related leasing activity, resulting in a \$1.8 million decrease in value to \$4.4 million (December 31, 2020 - \$nil), which was recognized in the third quarter as a loss from remeasurement of financial instruments.

Investments of \$2.6 million as at September 30, 2021 (December 31, 2020 – \$246.1 million) consists of two Canadian debt securities and one private Canadian equity investment. The balance decreased by \$243.5 million in the nine months ended September 30, 2021 due primarily to the following factors:

- the derecognition of \$215.3 million of investments upon the derecognition of Crown Partners Fund as a subsidiary effective July 13, 2021;
- the partial extinguishment of \$15.7 million of the PenEquity loan outstanding representing consideration in relation to the acquisitions to PSCC and PBC;
- an increase in the allowance for credit losses of \$2.5 million, primarily in relation to loans which are carried at amortized cost;
- the exercise by Crown Partners Fund of common share purchase warrants in the first quarter, which had a carrying value of \$1.8 million as at December 31, 2020, and the subsequent sale of the shares acquired;
- net investment losses, including a net realized gain and the net change in unrealized losses of investments, of \$0.2 million; and
- net repayment of debt securities held by Crown Partners Fund prior to its derecognition as a subsidiary totaling \$10.7 million; partially offset by
- additions to investments of \$0.8 million; and
- the inclusion of capitalized interest and the amortization component of interest revenue recognized on loans carried at amortized cost of \$1.9 million.

In accordance with IFRS 9, the Corporation classifies its investments in debt securities to be carried at either amortized cost or fair value through profit or loss (“FVTPL”). All investments in equity securities are carried at FVTPL.

As at September 30, 2021, the Corporation’s debt securities consisted of its loan to PenEquity, which is carried at amortized cost with an aggregate carrying value of \$2.0 million that equals its fair value, net of an allowance for credit losses of \$15.8 million (December 31, 2020 - \$168.1 million and \$16.1 million, respectively for loans measured at amortized cost), and its loan to Mill Street, which is carried at FVTPL with a carrying value of \$0.5 million (December 31, 2020 - \$65.3 million for loans carried at FVTPL). The carrying value of other investments carried at FVTPL, currently comprised of a single equity investment, was \$0.03 million as at September 30, 2021 (December 31, 2020 - \$12.7 million).

As at September 30, 2021, the PenEquity loan, with a carrying value of \$2.0 million, is considered to be credit-impaired and as such it is classified as Stage Three, for which credit provisions are determined based on *lifetime* expected credit losses. As at December 31, 2020, the total carrying value of loans classified as Stage Three was \$17.6 million, with the year-to-date reduction due largely to the partial extinguishment of \$10.4 million of the amount owing in respect of the PenEquity loan in connection with the acquisition of PSCC, and the partial extinguishment of \$4.6 million of the amount owing in respect of the PenEquity loan in connection with the asset acquisition of PBC. There were no investments transferred from Stage Two in the three and nine months ended June 30, 2021.

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

Investment in Crown Partners Fund represents the Corporation’s effective interest of 28.0% in Crown Partners Fund, including both limited partnership and general partnership interests, subsequent to the deconsolidation event (see Note 5 of the condensed consolidated interim financial statements). This represents the fair value at time of disposition of \$61.2 million plus share of earnings of \$2.0 million less distributions declared by the fund of \$10.4 million. The balance at September 30, 2021 is \$44.8 million for the limited partnership interest and \$8.0 million for the general partner interest.

The network services contract balance of \$5.3 million as at September 30, 2021 (December 31, 2020 - \$6.2 million) is an intangible asset representing the fair value of service contracts assumed on the acquisitions of WireIE and Galaxy, net of subsequent amortization and impairment of \$3.1 million and \$1.1 million, respectively. Network services contracts are amortized on a straight-line basis over estimated useful lives ranging between 4-6 years, and the recoverability of the carrying value is assessed at each reporting date.

The credit reporting customer contract balance of \$1.0 million as at September 30, 2021 (December 31, 2020 - \$nil) is an intangible asset representing the fair value of service contracts assumed on the acquisition of Lumbermens on May 6, 2021. Credit reporting customer contracts are amortized on a straight-line basis over estimated useful lives ranging between 5-10 years.

Property and equipment of \$15.4 million (December 31, 2020 - \$16.0 million) is comprised of:

- network services equipment, including right-of-use assets in relation to leased equipment and properties, of \$7.6 million (December 31, 2020 - \$8.4 million) that relate to Network Services businesses;
- distributed power equipment of \$6.9 million (December 31, 2020 - \$6.8 million) representing power generation assets acquired by Crown Power Fund that are not assigned for use in specific projects in development; and
- office and other equipment of \$0.9 million (December 31, 2020 - \$0.8 million).

Net investment in leased distributed power equipment represents power generation assets subject to contractual lease agreements. There are four such leases in effect as at September 30, 2021 (December 31, 2020 – three leases), which were transferred from distributed power equipment under development and related deposits. The carrying balance at September 30, 2021 was \$9.6 million (December 31, 2020 - \$9.2 million).

Property and equipment under development and related deposits of \$32.4 million as at September 30, 2021 (December 31, 2020 - \$16.0 million) consists of (i) property under development of \$8.3 million acquired as part of the acquisition of PSCC in March 2021, comprising the carrying value of property owned by PSCC that is located in Hamilton, Ontario and is in the course of retail development; (ii) property under development of \$13.6 million acquired as part of the acquisition of PBC assets in April 2021, comprising the carrying value of property owned by PBC that is located in Barrie, Ontario and is in the course of residential development; (iii) additions to property under development of \$0.6 million made subsequent to the above-noted acquisitions; and (iv) \$9.9 million of power generation assets acquired in relation to projects under development. The balance increased by \$16.3 million compared to December 31, 2020 due primarily to the two above-noted acquisitions totaling \$21.9 million, additions to property under development in relation to such acquisitions of \$0.6 million, and to additions to power generation assets in relation to projects under development totaling \$4.7 million, including capitalized interest of \$0.9 million, partially offset by a reclassification of \$0.8 million of power generation assets under development to net investment in leased distributed power equipment, and a \$10.0 million disposition of power generation assets under development in relation to an agreement to discontinue a relationship with a third-party Operating Partner, which resulted in the full recovery of the related investment by Crown Power Fund including amounts of capitalized interest.

### ***Liabilities***

Accounts payable and other liabilities of \$14.8 million include deferred network services revenue of \$2.3 million, a contingent consideration liability, deferred income taxes, a deferred compensation liability and accounts payable and accrued liabilities of \$9.3 million. The balance decreased by \$0.7 million in the nine months ended September 30, 2021 primarily as a result of the elimination of distributions payable to non-controlling interests upon the derecognition of Crown Partners Fund as a subsidiary and the full repayment of vendor promissory notes payable of \$0.6 million, partially offset by inclusion of accounts payable and accrued liabilities assumed in connection with the acquisitions of PSCC and Lumbermens in March 2021 and May 2021, respectively, the inclusion of accounts payable and accrued liabilities in connection with the asset acquisition of PBC in April 2021 and an increase in deferred taxes in relation to the acquisitions of PSCC and Lumbermens.

The network services vendor note payable is in respect of an unsecured, interest-bearing vendor note payable with one of Galaxy's primary network services vendors recognized by the Corporation at the time of Galaxy's acquisition in September 2020. The note bears interest at 8% per annum, is calculated and is payable annually, and matures on February 1, 2023. Principal amounts are to be repaid in monthly instalments, payable on the first day of each month. At September 30, 2021, the balance of the note is \$0.7 million (December 31, 2020 - \$1.3 million).

Lease obligations of \$2.3 million at September 30, 2021 (December 31, 2020 - \$3.3 million) are comprised of \$1.8 million of lease obligations in relation to network services equipment and properties of WireIE Inc. and Galaxy, including the usage of third-party tower space through network co-location arrangements, plus \$0.5 million in relation to office and vehicle leases. Lease obligations outstanding largely correspond with right-of-use lease assets included in property, office equipment and network services equipment.

Upon acquisition of PSCC in March 2021, Crown assumed a mortgage payable of \$3.3 million, secured by the value of property under development, that is due on August 26, 2022. The mortgage payable bears interest at 8.5% per annum, calculated and payable monthly on the first day of each month. The Corporation has the option to prepay all of the mortgage payable outstanding after September 1, 2021 on payment of a penalty equal to one months' interest on the outstanding indebtedness.

Upon an asset acquisition of PBC in April 2021, Crown assumed a mortgage payable of \$9.2 million, secured by the value of property under development, and due on December 1, 2021. The mortgage payable is comprised of two tranches with balances outstanding of \$3.8 million and \$5.4 million, respectively, which bear interest at 13.5% per annum and a variable interest rate based on Prime Rate plus 655 bps (with a floor of 9.0%) per annum, respectively, calculated and payable monthly on the first day of each month.

The provision for performance bonus of \$4.0 million at September 30, 2021 (December 31, 2020 - \$3.2 million) reflects 50% of the performance fee accrued by Crown, as a component of investment in Crown Partners Fund as the value attributable to its general partnership interest in Crown Partners Fund, which is the portion that will be payable to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners of Crown Partners Fund. To date, no amounts have been accrued in relation to the Crown Power Fund APBP.

Credit facilities of (\$0.4) million as at September 30, 2021 (December 31, 2020 - \$62.9 million) was comprised of \$nil outstanding under the Crown Credit Facility, net of deferred finance costs in relation to the Crown Credit Facility of \$0.4 million. The balance as at December 31, 2020 had included \$29.1 million in respect of the Preceding Crown Facility, which has since been refinanced with the Crown Credit Facility and has subsequently been fully repaid, plus \$34.3 million in respect of the CCPF Credit Facility, which was derecognized as a liability of the Corporation upon derecognition of Crown Partners Fund as a subsidiary effective July 13, 2021. The Crown Credit Facility now has \$20 million revolving portion plus a \$3.5 million letter of credit.

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

### Non-controlling Interests

Non-controlling interests in our consolidated results consist of third-party interests in Crown Power Fund and, until its derecognition as a subsidiary effective July 13, 2021, Crown Partners Fund, as follows:

AS AT SEP. 30, 2021 and DEC. 31, 2020  
(THOUSANDS)

	2021	2020	Change
Crown Partners Fund.....	\$ -	\$ 115,603	\$ (115,603)
Crown Power Fund.....	18,935	23,903	(4,968)
	<u>\$ 18,935</u>	<u>\$ 139,506</u>	<u>\$ (120,571)</u>

Non-controlling interests decreased by \$120.6 million during the nine months ended September 30, 2021, primarily due to:

- the derecognition of Crown Partners Fund as a subsidiary effective July 13, 2021, resulting in the derecognition of the related non-controlling interests balance of \$120.7 million as at that date; and
- distributions to non-controlling interests totaling \$10.5 million; partially offset by
- a \$4.4 million increase resulting from the March 31, 2021 acquisition by non-controlling interests of a portion of Crown's ownership position in Crown Partners Fund; and
- net income attributable to non-controlling interests of \$6.2 million.

## Equity

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

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS)	2021	2020
Equity, beginning of period.....	\$ 81,174	\$ 97,478
Changes in period:		
Net income (loss) attributable to Shareholders.....	1,810	(11,027)
Dividends declared.....	-	(1,414)
Shares repurchased.....	(3,687)	(720)
Share-based compensation.....	(257)	173
Cash-settled share-based compensation.....	(51)	(137)
	<u>(2,185)</u>	<u>(13,125)</u>
Equity, end of period.....	\$ 78,989	\$ 84,353

As a result of new information obtained within one year of the date of acquisition of Galaxy about facts and circumstances that existed at the date of acquisition, a retrospective adjustment was made in relation to the acquisition date fair value of network services contracts and the measurement of the related deferred tax liability. As a result, included in opening equity for fiscal 2021 of \$81.2 million is a retrospective adjustment of (\$0.1) million in relation to incremental depreciation in respect of network services contracts, partially offset by a deferred tax recovery in respect of the incremental depreciation of network services contracts.

Total equity decreased by \$2.2 million in the nine months ended September 30, 2021 primarily due to the following:

- net income attributable to Shareholders of \$1.8 million; offset by
- share-based compensation, including cash-settled share-based compensation, of \$0.3 million;
- share repurchases made in relation to the Corporation's substantial issuer bid totaling \$3.2; and
- share repurchases made in relation to the Corporation's normal course issuer bid ("NCIB") totaling \$0.5 million.

On July 27, 2021, pursuant to a substantial issuer bid that had been announced on June 16, 2021 (the "SIB"), we purchased and subsequently canceled 559,854 common shares for total consideration of \$3.1 million, excluding related fees and expenses of \$0.2 million. The aggregate carrying value of the canceled shares of \$4.8 million was recognized as a reduction of share capital, and the difference between the total consideration paid pursuant to the SIB and the carrying value of the canceled shares of \$1.5 million, net of related fees and expenses, was recognized as a reduction to deficit.

As at September 30, 2021, the share capital component of total equity was \$72.1 million (December 31, 2020 - \$77.5 million). In the three and nine months ended September 30, 2021, aggregate share repurchases under the NCIB and the SIB reduced share capital by \$4.9 million and \$5.5 million, respectively (2020 - \$1.3 million and \$1.7 million) and the issuance of common shares as a result of vesting of restricted share units in the period increased share capital by \$nil and \$0.2 million, respectively (2020 - \$nil and \$0.4 million).

In the nine-month period ended September 30, 2020, pursuant to a special resolution authorizing the reduction of the stated capital of the Common Shares of the Corporation, share capital was reduced by \$15.0 million and \$15.0 million was added to contributed surplus with no net impact on total equity.

The contributed surplus component of total equity as at September 30, 2021 was \$15.2 million (December 31, 2020 - \$15.7 million), reflecting decreases of \$0.02 million in the quarter and of \$0.5 million in the nine months ended September 30, 2021. The decrease relative to December 31, 2020 reflects \$0.2 million transferred to share capital in relation to the vesting of restricted share units, a \$0.1 million reduction in relation to cash-settled share-based compensation upon the vesting of restricted share units, and a \$0.2 million reduction in relation to a reversal of share based compensation expense upon the expiration of unvested performance share units.

No dividends were declared by the Corporation on outstanding Common Shares in the nine months ended September 30, 2021 (2020 – \$0.15 per Common Share). In May 2020, we announced our decision to suspend quarterly dividend payments in order to focus the use of funds available for distribution on strategic investments and share buybacks.

## **SUMMARY OF QUARTERLY RESULTS**

A range of factors impact variance in quarterly results. The derecognition of an investment previously recognized as a subsidiary, such as the derecognition of Crown Partners Fund as a subsidiary of Crown in the three months ended September 30, 2021, impacts the comparability of certain financial items between periods. The main factors affecting quarterly variances in interest revenue are completion of new investment transactions and loan repayments in a quarter. Major factors affecting fees and other income include new investment transactions, amendments to investment agreements, and loan prepayments completed in a quarter. Factors affecting net gains (losses) on investments, including both realized and unrealized gains (losses), include changes in the fair value of loan investments carried at FVTPL caused by variations in benchmark interest rates and/or the credit status of portfolio companies as well as variations in market prices for publicly traded equity securities and estimated fair value of other equity securities held in the portfolio. Factors impacting network services revenue include the acquisition of Network Services businesses and the growth of such businesses, including the impact of net customer additions (losses). Other notable causes of variance in quarterly results include changes in the provision for credit loss caused by variations in the credit status of portfolio companies, contributions from acquired companies and changes in finance costs caused mainly by fluctuating levels of outstanding debt. Changes in Crown's percentage ownership interest in a fund due to additional subscriptions from Crown and/or additional subscriptions or redemptions from non-controlling interests impact net income (loss) attributable to Shareholders.

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

FOR THE PERIODS ENDED (THOUSANDS, EXCEPT PER SHARE AMOUNTS)	2021			2020			2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue:								
Network services revenue.....	\$ 7,445	\$ 6,843	\$ 6,386	\$ 5,739	\$ 2,526	\$ 1,868	\$ 1,983	\$ 2,117
Interest revenue.....	278	6,403	6,554	6,276	6,878	7,224	7,333	7,030
Share of earnings of Crown Partners Fund.....	1,959	-	-	-	-	-	-	-
Fees and other income.....	151	632	559	391	304	779	337	711
Net gain (loss) on investments.....	-	(781)	545	152	2,884	3,395	(3,245)	395
Total revenue.....	<b>9,833</b>	13,097	14,044	12,558	12,592	13,266	6,408	10,253
Net income (loss) attributable to Shareholders	<b>844</b>	(294)	1,260	(2,484)	(8,183)	(1,641)	(1,202)	1,065
Adjusted Funds from Operations <sup>1</sup> .....	<b>2,421</b>	3,228	4,465	2,955	2,355	3,581	4,170	3,570
Total assets.....	<b>151,038</b>	332,545	334,816	326,153	330,011	324,905	338,006	299,653
Total equity.....	<b>78,989</b>	81,478	81,962	81,174	84,353	93,043	94,801	97,478
Per share:								
- Net income (loss) to Shareholders - diluted	\$ 0.10	\$ (0.03)	\$ 0.16	\$ (0.26)	\$ (0.87)	\$ (0.17)	\$ (0.13)	\$ 0.11
- Net income (loss) to Shareholders - basic	<b>0.10</b>	(0.03)	0.16	(0.26)	(0.88)	(0.17)	(0.13)	0.11
- Total equity per share - basic	<b>9.37</b>	9.05	9.10	8.98	9.13	9.90	10.05	10.38

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

## Review of Prior Quarterly Results

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

- In the second quarter of 2021, we recognized a net loss attributable to Shareholders of \$0.3 million, due primarily to a net loss on investments attributable to Shareholders of \$1.5 million that related mainly to a loss recognized in relation to the Mill Street loan investment. Net income before income taxes of the network services segment was \$1.6 million, inclusive of depreciation and amortization expenses totaling \$0.9 million. Interest revenue attributable to Shareholders declined by \$0.6 million year-over-year due to a lower average level of interest-yielding investments in Crown Partners Fund and a reduction of interest revenue recognized in relation to the PenEquity and Mill Street loans to \$nil, partially offset by an increase in interest revenue earned by Crown Power Fund.
- In the first quarter of 2021, net income attributable to Shareholders of \$1.3 million was primarily comprised of \$1.2 million of net income attributable to the network services segment, inclusive of depreciation and amortization expenses totaling \$0.7 million, compared with a pre-tax loss from network services of \$1.7 million in the prior-year period. The net gain on investments attributable to Shareholders was nominal at \$0.1 million and, compared with the first quarter of 2020, a decrease in salary expense due to headcount reduction and salary reductions was offset by an increase in general and administrative costs related to asset realizations, interest revenue attributable to Shareholders declined by \$2.0 million and the provision for credit losses was \$0.3 million higher due to additional losses recognized in relation to the PenEquity loan.
- In the fourth quarter of 2020, the primary driver of the net loss attributable to Shareholders of \$2.5 million was a \$2.5 million net loss contributed by WireIE, including related depreciation expense of \$1.1 million, a \$0.9 million impairment charge in relation to network services equipment decommissioned upon termination of related network services contracts, and \$1.1 million charge in relation to an impairment of network services contracts based on expectations of recoverable value associated with existing network services contracts. In the first full quarter following its acquisition on September 15, 2020, Galaxy contributed pre-tax operating income of \$0.3 million in Q4 2020.

- In the third quarter of 2020, the primary driver of the net loss attributable to Shareholders of \$8.2 million was a provision for credit losses of \$11.2 million recognized primarily in relation to the PenEquity loan, which is carried at amortized cost. WireIE contributed a pre-tax operating loss of \$0.4 million, inclusive of depreciation and amortization expenses totaling \$1.0 million. These contributors to the net loss attributable to Shareholders were partially offset by a net gain on investments of \$2.9 million, including a net unrealized gain of \$3.6 million on the investments of Crown Partners Fund and a net unrealized loss of \$0.7 million on the investments of Crown Private Credit Fund, of which a net gain of \$0.7 million was attributable to Shareholders.
- In the second quarter of 2020, a primary driver of the net loss attributable to Shareholders of \$1.6 million was a provision for credit losses of \$3.9 million recognized primarily in relation to the PenEquity loan, which is carried at amortized cost. WireIE contributed a net pre-tax operating loss of \$0.6 million, inclusive of depreciation and amortization expenses totaling \$1.0 million. A \$0.7 million impairment charge was recognized on distributed power equipment under development of Crown Power Fund in relation to certain costs previously capitalized that were no longer expected to be recovered through the related project. Partially offsetting these factors in the quarter was a net gain on investments of \$3.4 million relating primarily to the investments of Crown Partners Fund, of which \$1.3 million was attributable to Shareholders.
- In the first quarter of 2020, WireIE contributed a net pre-tax operating loss of \$1.3 million, inclusive of depreciation and amortization expenses totaling \$1.9 million, a primary factor of the net loss attributable to Shareholders of \$1.2 million. Results also included a net loss on investments of \$3.2 million related primarily to reductions in the fair value of the equity-related investments of Crown Partners Fund, of which a net loss of \$1.2 million was attributable to Shareholders.
- In the fourth quarter of 2019, the average level of interest-yielding investments increased following additional advances made by Crown Partners Fund to an existing investee, which also contributed to transaction fee income recognized in the period. The net gain on investments of \$0.4 million included a \$1.4 million unrealized gain in relation to the restructuring of a loan carried at amortized cost that more than offset an aggregate net unrealized loss of \$1.0 million in relation to investments carried at FVTPL. WireIE contributed a net pre-tax operating loss of \$0.3 million, including depreciation expense of \$0.7 million. The provision for credit losses of \$0.5 million was high relative to prior quarters and was primarily due to an increase in credit risk within the investment portfolio. An aggregate impairment charge of \$0.3 million was recognized in relation to certain distributed power and network services assets, and a \$0.3 million gain was recognized upon revising the gain recognized in relation to the WireIE acquisition.

## RELATED PARTY TRANSACTIONS

The Corporation earns investment management fees pursuant to management agreements. The base annual management fee for Crown Power Fund is equal to 1.0% of total capital, as defined in the limited partnership agreement for this fund, which includes the sum of invested capital net of capital distributions and realized losses plus funded debt that has been invested into qualifying investments, also as defined in the limited partnership agreement. Prior to July 13, 2021, the date at which Crown ceased to be the investment manager of Crown Partners Fund, it earned a base annual management fee in relation to this fund equal to 1.75% of invested capital, as defined in the fund's limited partnership agreement, less any capital distributions and realized losses. Crown provides certain limited partners with management fee discounts and Crown may voluntarily reduce its management fees such that the effective annualized management fee rates earned by Crown from these two funds are lower than the base rates specified above.

On consolidation, 100% of management fees earned from Crown Power Fund and, prior to July 13, 2021, from Crown Partners Fund are eliminated against the management fees expensed by these funds.

Prior to its derecognition as a subsidiary effective July 13, 2021, the non-controlling interests of Crown Partners Fund incurred approximately 63.5% (December 31, 2019 to March 30, 2021 – 61.2%) of the management fees while Crown effectively paid itself for the remaining 36.5% (December 31, 2019 to March 30, 2021 - 38.8%) as a result of its ownership interests.



The non-controlling interests of Crown Power Fund incur approximately 56.8% of the management fees while Crown effectively pays itself for the remaining 43.2% as a result of its ownership interest.

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

As at September 30, 2021, there was an amount payable to Crown Power Fund by Crown of \$0.6 million (December 31, 2020 - \$0.8 million) that relates to a reimbursement of advances made by Crown Power Fund to a formerly affiliated Operating Partner that were subsequently determined to be unrecoverable.

The Corporation is party to a services agreement with CPCP, in which we hold a 12.5% equity interest, subject to which we provide certain accounting and finance-related services for CPCP in exchange for a monthly fee that represents market rate of remuneration for such services. This services agreement may be terminated by either party for any reason upon 90 days written notice.

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

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Three Months		Nine Months	
	2021	2020	2021	2020
Management fees to Crown by non-controlling interests in Crown Partners Fund <sup>1,2,3</sup>	\$ -	\$ 451	\$ 888	\$ 1,378
Management fees to Crown by non-controlling interests in				
Crown Partners Fund - finance fees <sup>1,3,4</sup>	-	-	-	217
Management fees to Crown by non-controlling interests in				
Crown Power Fund <sup>1,2,3</sup>	27	28	103	71
Performance fee accrual to Crown by non-controlling interests in				
Crown Partners Fund <sup>1,3,5</sup>	-	690	720	1,005
	<u>\$ 27</u>	<u>\$ 1,169</u>	<u>\$ 1,711</u>	<u>\$ 2,671</u>

1. Effective July 13, 2021, Crown ceased to be the investment manager of Crown Partners Fund, to earn management fees in relation to Crown Partners Fund, and to consolidate the results of Crown Partners Fund in our consolidated financial results.

2. Monthly management fees charged by Crown to its managed funds in its role as an investment manager represents a revenue to Crown and an expense to Crown Power Fund and, prior to July 13, 2021, to Crown Partners Fund on a non-consolidated basis and are eliminated upon consolidation. The amounts shown here represent the portion of such management fees attributable to Shareholders (i.e., excluding the amount of such fees that Crown, as an investor in these funds, is effectively paying itself as manager).

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

4. In addition to monthly fees, in its role as investment manager prior to July 13, 2021, Crown was entitled to half of transaction fees received by Crown Partners Fund in respect of new investment to a maximum of 1% of the investment value.

5. Crown Partners Fund, on a non-consolidated basis, maintains an accrual in relation to performance fees attributable to Crown in its role as general partner of the fund. Prior to July 13, 2021, these fees were eliminated upon consolidation. The amounts shown here represent the portion of such performance fees attributable to Shareholders prior to July 13, 2021 (i.e., excluding the amount of such fees that Crown, as an investor in this fund, was effectively paying itself as general partner). Effective July 13, 2021, 100% of the performance fee attributable to Crown in its role as general partner of Crown Partners Fund is recognized as a component of the investment in associate asset, with any change in the value of this asset included in revenue as a component of share of earnings in associate.

## PART 3 – REVIEW OF OPERATIONS

The following section contains an overview review of our operations, including separate discussions for each of our five reportable segments: specialty finance, network services, distributed power, real estate and corporate and other.

For a discussion of revenues by type, refer to *Part 2 – Review of Consolidated Financial Results*. For more information regarding the performance of our reportable segments, refer to *Note 15 – Segment information* in our condensed consolidated interim financial statements.

### SPECIALTY FINANCE

As at September 30, 2021, our specialty finance segment is comprised of our 28.0% effective interest in Crown Partners Fund, which is classified as an investment in associate, as well as corporate loans to PenEquity and Mill Street and a 12.5% equity interest in CPCP which are classified as investments.

Prior to July 13, 2021, in addition to our co-investment in Crown Partners Fund and our direct investment in corporate loan and equity investments, Crown also acted as the investment manager of each of Crown Partners Fund and CCF IV Investment LP and was actively involved in originating and managing investments.

Effective July 13, 2021, we sold a majority stake in CPCP, our alternative lending fund management business, in which the Corporation retains a 12.5% ownership interest, and transferred to CPCP our investment management contracts in respect of Crown Partners Fund and CCF IV Investment LP. In connection with this transaction, we also sold a portion of our limited partnership interest in Crown Partners Fund, reducing our effective interest from 36.5% to 28.0%, while retaining our general partnership interest in the fund.

We had previously sold a portion of our limited partnership interest in Crown Partners Fund on March 31, 2021, which reduced our effective interest from 38.8% to 36.5%. In each of these sale transactions, we sold limited partnership units to third-party investors at transaction prices equal to the prevailing fair value of the units which, in both cases, represented a premium to our carrying value.

Our exit from the business of managing credit-oriented investment funds and the partial dispositions of our interest in Crown Partners Fund were consistent with the change in strategic direction that we announced in May 2020 to improve the efficiency of our capital by shifting towards a capital-light business model, involving the planned reduction of ownership in Crown Partners Fund to a target of 20% or less, and the achievement of liquidity in our lending portfolio, where possible. We intend to use the proceeds from any such realizations in future to pursue strategic growth opportunities and to rationalize our capital structure.

Select financial information pertaining to the Specialty Finance segment as at and for the nine-month periods ended September 30, 2020 and 2021 is presented below:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS, UNLESS OTHERWISE NOTED)	Specialty Finance Segment		
	2021	2020	Change
Assets.....	\$ 55,334	\$ 258,114	\$ (202,780)
Liabilities.....	3,990	47,752	(43,762)
Non-controlling interests.....	-	119,289	(119,289)
Net assets.....	51,344	91,073	(39,729)
Revenues.....	14,426	24,844	(10,418)
Income before other adjustments and income taxes.....	8,796	4,299	4,497
<b>Additional information pertaining to Crown Partners Fund:</b>			
Net assets attributable to limited partners - carrying value <sup>1</sup> .....	157,753	193,981	(36,228)
Net assets attributable to limited partners - fair value <sup>2</sup> .....	158,524	193,339	(34,815)
Net assets attributable to general partner - carrying value and fair value <sup>3</sup> .....	7,980	5,833	2,147
Crown's share of earnings attributable to limited partners.....	4,914	6,764	(1,850)
Crown's share of earnings attributable to the general partner.....	1,502	1,640	(138)
Crown's effective limited partnership interest <sup>4</sup> .....	28.0%	38.8%	-10.8%

1. Represents the total carrying value of net assets as reported by Crown Partners Fund in accordance with IFRS.

2. Represents the total fair value of net assets attributable to limited partners as determined by its investment manager.

3. Fair value is equal to carrying value, which is determined based upon the fair value of net assets attributable to limited partners.

4. Effective interest was 38.8% from January 1, 2020 to September 30, 2020, 36.5% from January 1, 2021 to July 13, 2021 and 28.0% from July 14, 2021 to September 30, 2021.

In the three months ended September 30, 2021, Crown Partners Fund received aggregate proceeds of \$52.7 million in respect of the prepayment of its loans to CareRx Corporation and T5 SC Oil and Gas Limited Partnership which were applied towards distribution payments to limited partners in addition to the full repayment and cancellation of its revolving credit facility. Primarily as a result of these transactions, the carrying value of net assets attributable to limited partners of Crown Partners Fund declined by \$(31.2) million in the quarter.

## Outlook

The investment term of Crown Partners Fund will expire on December 31, 2021, after which the fund will make no new investments and the proceeds of all repayments and realizations of invested assets will be returned to limited partners upon receipt by the fund. The timing of such repayments and realizations, and therefore of the related capital return distributions to limited partners, including Crown, is unpredictable. We expect that all repayments and realizations will occur prior to the expiration of the term of Crown Partners Fund on September 30, 2025.

We do not plan to make any new loan investments, consistent with our strategy to shift to a more capital-light business model.

## NETWORK SERVICES

Through its Galaxy, WireIE Inc. and Community Network Partners Inc. subsidiaries, Crown provides network connectivity to customers in otherwise underserved markets. Collectively, we refer to the operations of these subsidiaries as our network services segment (“**Network Services**”).

Through WireIE Inc., a wholly owned subsidiary, Crown owns and operates broadband networks that deliver reliable, scalable and secure network availability to businesses in underserved markets. Through Galaxy, an Ontario-based, satellite-focused network services company acquired by Crown in September 2020, Crown provides connectivity to remote and underserved enterprise customers across Canada. Through Community Network Partners Inc., Crown intends to provide connectivity to small, underserved communities across Canada, with those community network

projects generally structured to enable the subject communities to participate in the capital funding and subsequent profit sharing associated with their local projects.

Revenue earned by Network Services businesses includes network services revenue, comprised of contractual revenue related to the access and usage of telecommunications infrastructure in addition to revenue from professional services, network support, maintenance and repair services, and hardware sales.

Select financial information pertaining to the Network Services segment as at and for the nine-month periods ended September 30, 2020 and 2021 is presented below:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS)	Network Services Segment		
	2021	2020	Change
Assets.....	\$ 19,191	\$ 22,360	\$ (3,169)
Liabilities.....	9,329	9,155	174
Net assets.....	9,862	13,205	(3,343)
Revenues.....	20,674	6,377	14,297
Income before depreciation, other adjustments and income taxes.....	6,648	1,670	4,978
Depreciation.....	2,716	3,935	(1,219)
Income (loss) before other adjustments and income taxes.....	3,932	(2,265)	6,197

## Outlook

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

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

## DISTRIBUTED POWER

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

Crown acts as investment manager of Crown Power Fund and, through a wholly owned subsidiary, is also the general partner of Crown Power Fund. In addition to revenues earned by the Corporation in relation to its partial ownership of Crown Power Fund, Crown also earns fees from non-controlling interests in relation to its management of Crown Power Fund (see *Part 2 – Review of Consolidated Financial Results – Related Party Transactions* on page 24).

Crown also anticipates earning revenue in relation to the partial interests that it holds, both directly and through Crown Power Fund, in multiple operating partners of Crown Power Fund ("**Operating Partners**") as these Operating Partners achieve scale and profitability. Operating Partners are third-party entities engaged exclusively in sourcing, designing, constructing and operating distributed power projects on behalf of Crown Power Fund. The arrangements with each Operating Partner involve the granting of non-controlling ownership interests in the Operating Partner to each of Crown and Crown Power Fund for nominal consideration.

Select financial information pertaining to the distributed power segment as at and for the nine-month periods ended September 30, 2020 and 2021 is presented below:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS)	Distributed Power Segment		
	2021	2020	Change
Assets.....	\$ 32,569	\$ 34,115	\$ (1,546)
Liabilities.....	174	4,099	(3,925)
Non-controlling interests.....	18,935	19,859	(924)
Net assets.....	13,460	10,157	3,303
Revenues.....	1,548	818	730
Income (loss) before other adjustments and income taxes.....	1,121	(485)	1,606

As at September 30, 2021, Crown Power Fund's aggregate equipment-related investment was carried at \$26.5 million (December 31, 2020 - \$32.0 million) including amounts invested in distributed power equipment under development and related deposits (\$9.9 million), distributed power equipment (\$7.0 million, included in property and equipment) and net investment in leased distributed power equipment (\$9.6 million).

In the second quarter of 2021, Crown and Crown Power Fund agreed to relinquish their partial ownership stakes in an existing Operating Partner and to sell to that Operating Partner three related distributed power projects, including amounts of capitalized interest and additional fees in respect of these projects, for total proceeds of \$10.0 million.

As at September 30, 2021, a total of four distributed power projects with an aggregate carrying value of \$9.6 million owned by Crown Power Fund are operational and under lease arrangements. In addition to existing projects under lease, Crown Power Fund has seven additional projects under development at various stages of completion, including three projects that are expected to become operational by the end of 2021, and three projects that are expected to become operational in Q1 2022.

As at September 30, 2021, the uncalled portion of capital commitments to Crown Power Fund by non-controlling interests was \$13.4 million.

## Outlook

We remain focused on building out assets in Crown Power Fund and on securing additional third-party funding commitments to help finance additional investment. The pipeline of potential transactions in the distributed power market, including prospective projects already in the planning stage by Crown Power Fund, is healthy and our focus is to advance numerous projects through to completion. Management believes that the market opportunity continues to become more compelling for onsite power generation in Ontario, Alberta, and Eastern Canada, our current geographic regions of focus.

We presently see only minimal financial impacts of the COVID-19 pandemic on the financial performance of our power generation assets or pipeline opportunities.

## REAL ESTATE

Crown participates in the real estate development market through its ownership of PSCC and PBC, which were both acquired from PenEquity, to which Crown, through its wholly owned subsidiary Crown Private Credit Fund, has a loan outstanding.

On March 1, 2021, we acquired 100% of the common shares of PSCC, whose assets include entitlements to future cash flows in relation to the sale of its interest in a grocery-anchored community retail plaza located in Hamilton, Ontario, plus adjacent land. Pursuant to the transaction, Crown acquired the equity of PSCC in exchange for consideration of \$10.4 million, representing a reduction in the amount owed to Crown by PenEquity.

On April 15, 2021, we acquired the 100% of the common shares of PBC, the assets of which are primarily comprised of land located in Barrie, Ontario. Pursuant to the transaction, Crown acquired the net assets of PBC in exchange for consideration of \$5.3 million, representing a reduction in the amount owed to Crown by PenEquity.

Select financial information pertaining to the real estate segment as at and for the nine-month periods ended September 30, 2020 and 2021 is presented below:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS)	Real Estate Segment		
	2021	2020	Change
Assets.....	\$ 28,180	\$ -	\$ 28,180
Liabilities.....	13,660	-	13,660
Net assets.....	14,520	-	14,520
Revenues.....	(130)	-	(130)
Income before other adjustments and income taxes.....	-	-	-

As the assets of the real estate segment are comprised primarily by real estate properties that are in the process of being developed and by a lease earn-out receivable, this segment did not recognize any revenues or expenses from operations in the nine months ended September 30, 2021. In the nine months ended September 30, 2021, the settlement of a promissory note contract coincident with the acquisition of PSCC resulted in the recognition of a realized loss of \$0.1 million which was offset by a \$0.1 million reduction in the allowance for credit losses, and the subsequent revaluation of the lease earn-out note receivable acquired pursuant to the acquisition of PSCC resulted in a loss on remeasurement of financial instruments of \$1.8 million.

## Outlook

Over the next six months, we anticipate settlement of the lease earn-out receivable, with a portion of related proceeds to be used to repay and extinguish the mortgage payable in respect of PSCC.

We are currently in negotiations with potential lenders regarding a refinancing or extension of the \$9.2 million mortgages payable in respect of PBC, which have a maturity date of January 1, 2022, and expect to achieve a refinancing or extension prior to the maturity date.

We intend to continue working with PenEquity to progress the development of the properties of PSCC and PBC located in Stoney Creek, Ontario and Barrie, Ontario, respectively, and do not anticipate recognizing revenue in respect of either PSCC or PBC while their properties remain under development.

## CORPORATE AND OTHER

Our corporate and other segment includes our subsidiary Lumbermens as well as assets, liabilities, revenues and expenses that aren't directly related to any of our other four reportable segments. Accordingly, expenses of the corporate and other segment include salaries and benefits expense in relation to executives and staff that are not affiliated with any of the other four reportable segments, share-based compensation expense, costs related to the premises and operations of our corporate offices, professional fees that do not relate directly to other segments, costs related to maintaining Crown's status as a public company, etc. Total liabilities of the corporate and other segment include balances recognized in respect of each of the Crown Credit Facility and the Convertible Debentures.

On May 6, 2021, we acquired 100% of the common shares of Lumbermens, an Ontario-based credit reporting company. Pursuant to the transaction, Crown acquired the equity of Lumbermens in exchange for \$0.3 million of cash consideration and the remainder representing a reduction in the amount owed to Crown by Mill Street, the former parent of Lumbermens.

Select financial information pertaining to the corporate and other segment as at and for the nine-month periods ended September 30, 2020 and 2021 is presented below:

AS AT AND FOR THE NINE MONTHS ENDED SEP. 30 (THOUSANDS)	Corporate and Other Segment		
	2021	2020	Change
Assets.....	\$ 15,764	\$ 14,232	\$ 1,532
Liabilities.....	25,961	44,314	(18,353)
Net assets.....	(10,197)	(30,082)	19,885
Revenues.....	456	187	269
Loss before depreciation, other adjustments and income taxes.....	(5,547)	(4,873)	(674)
Depreciation.....	170	102	68
Loss before other adjustments and income taxes.....	(5,717)	(4,975)	(742)

## PART 4 – CAPITALIZATION AND LIQUIDITY

### CAPITALIZATION

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

*Corporate Capitalization* – reflects our issued and outstanding Convertible Debentures and Common Shares and the amount of debt issued by the Corporation excluding amounts in relation to its subsidiaries Crown Power Fund, Galaxy, WireIE Inc., PSCC, PBC, Lumbermens and, prior to July 13, 2021, Crown Partners Fund. Corporate debt includes amounts drawn upon the Crown Credit Facility. At September 30, 2021, our corporate capitalization was \$108.2 million (December 31, 2020 - \$136.2 million).

*Consolidated Capitalization* – reflects the full capitalization of wholly owned and partially owned entities that we consolidate in our financial statements and is equal to total liabilities plus total equity in our consolidated statement of financial position. At September 30, 2021, consolidated capitalization decreased compared with December 31, 2020 due primarily to the derecognition of liabilities and non-controlling interests in respect of Crown Partners Fund effective July 13, 2021, a reduction in corporate borrowings and a reduction in total equity in the nine months ended September 30, 2021, partially offset by the assumption of mortgage loans in connection with the acquisitions of PSCC and PBC. At September 30, 2021, our consolidated capitalization was \$151.0 million (December 31, 2020 - \$325.8 million).

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

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

AS AT SEP. 30, 2021 AND DEC. 31, 2020 (THOUSANDS)	Ref.	Corporate		Consolidated		Our Share	
		2021	2020	2021	2020	2021	2020
Corporate borrowings.....	i	\$ (368)	\$ 28,951	\$ (368)	\$ 28,951	\$ (368)	\$ 28,951
Subsidiary borrowings.....	ii	-	-	-	33,960	-	13,165
		<b>(368)</b>	<b>28,951</b>	<b>(368)</b>	<b>62,911</b>	<b>(368)</b>	<b>42,116</b>
Accounts payable and other liabilities.....		<b>10,093</b>	6,834	<b>19,526</b>	20,020	<b>19,401</b>	16,079
Lease obligations.....		<b>210</b>	295	<b>2,277</b>	3,280	<b>2,277</b>	3,280
Mortgages payable.....		-	-	<b>12,450</b>	-	<b>12,450</b>	-
Convertible debentures - liability component.....	iii	<b>19,229</b>	18,932	<b>19,229</b>	18,932	<b>19,229</b>	18,932
Non-controlling interests.....		-	-	<b>18,935</b>	139,506	-	-
Equity							
Share capital.....		<b>72,105</b>	77,470	<b>72,105</b>	77,470	<b>72,105</b>	77,470
Convertible debentures - equity component.....	iii	<b>483</b>	483	<b>483</b>	483	<b>483</b>	483
Contributed surplus.....		<b>15,177</b>	15,716	<b>15,177</b>	15,716	<b>15,177</b>	15,716
Deficit.....		<b>(8,776)</b>	(12,495)	<b>(8,776)</b>	(12,495)	<b>(8,776)</b>	(12,495)
Total equity.....	iv	<b>78,989</b>	81,174	<b>78,989</b>	81,174	<b>78,989</b>	81,174
Total capitalization.....		<b>\$108,153</b>	<b>\$136,186</b>	<b>\$151,038</b>	<b>\$325,823</b>	<b>\$131,978</b>	<b>\$161,581</b>

<sup>1</sup> See definition in Glossary of Terms beginning on page 47.



#### **i. Corporate Credit Facility**

On December 30, 2016, Crown entered into an agreement for a \$35.0 million, 36-month, renewable senior secured revolving credit facility with ATB Financial and Business Development Bank of Canada which was used primarily to fund the Corporation's capital commitments to each of Crown Partners Fund, CCF IV Investment LP and Crown Power Fund and to fund certain other investments (the "**Preceding Crown Credit Facility**"). Effective February 5, 2019, the Corporation extended the maturity of the Preceding Crown Credit Facility to May 31, 2021.

Effective May 7, 2021, the Corporation entered into a new senior secured corporate credit facility with ATB Financial (the "**Crown Credit Facility**") to be used to fund the Corporation's capital commitments to each of Crown Partners Fund and Crown Power Fund, other existing investments, potential acquisitions and share purchases and for general corporate purposes. This Crown Credit Facility replaced the Preceding Crown Credit Facility.

The Crown Credit Facility originally included a total lender commitment of \$41.5 million including a \$30.0 million revolving credit facility that declined to \$20.0 million in July 2021 upon repayment to an outstanding balance below \$20.0 million, a \$8.0 million term facility that expired unused in August 2021, and a \$3.5 million dedicated-purpose letter of credit facility. As at September 30, 2021, the Crown Credit Facility is comprised of a \$20.0 million revolving credit facility and a \$3.5 million dedicated-purpose letter of credit facility. The revolving facility has a three-year term that provides financing at a variable interest rate based on Prime Rate plus 275 to 350 bps, has a customary set of covenants, and has a maturity date of May 7, 2024, which is subject to annual extension by one or more years at the request of the Corporation.

As at September 30, 2021, \$nil (December 31, 2021 - \$29.1 million) has been drawn on the Crown Credit Facility and \$3.2 million of the dedicated-purpose letter of credit has been utilized. The balance outstanding on the Crown Credit Facility at September 30, 2021 of \$(0.4) million is comprised of gross advances of \$nil net of unamortized deferred financing costs of \$0.4 million. The carrying value of assets pledged in respect of this loan as at September 30, 2021 was \$105.9 million (December 31, 2020 - \$150.0 million).

#### **ii. Subsidiary Credit Facility**

On February 5, 2019, Crown Partners Fund entered into an agreement for a \$25.0 million senior, secured, syndicated credit facility with ATB Financial as agent and a maturity date of May 31, 2022 that was subject to extension annually, and that was intended to be used primarily to fund investments in mid-market corporations (the "**CCPF Credit Facility**"). Effective December 17, 2019, the size of the CCPF Credit Facility was increased to \$50 million, on January 26, 2021 the size was decreased to \$35 million, on May 31, 2021 the size was further reduced to \$25.0 million. Effective July 13, 2021, when Crown Partners Fund ceased to be a subsidiary, the balance of the CCPF Credit Facility was derecognized in Crown's consolidated financial statements.

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

#### **iii. Convertible Debentures**

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

#### iv. Equity

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

##### *Issued and Outstanding Shares*

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

AS AT AND FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Three Months Ended		Nine Months Ended	
	2021	2020	2021	2020
Outstanding at beginning of period.....	8,999	9,394	9,056	9,393
Issued (repurchased)				
Repurchases.....	(572)	(155)	(648)	(193)
Share-based compensation.....	-	-	19	39
Outstanding at end of period.....	8,427	9,239	8,427	9,239
Unexercised options and other share-based plans <sup>1</sup> .....	-	59	-	59
Total diluted shares at end of period.....	8,427	9,298	8,427	9,298

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

In the three and nine months ended September 30, 2021, the Corporation issued nil and 18,951 Common Shares to employees as a result of vesting of restricted share units, respectively (2020 – nil Common Shares and 39,024 Common Shares).

On April 13, 2020, the Corporation renewed its NCIB to purchase for cancellation during the next 12 months up to 550,000 Common Shares, representing approximately 5.8% of the issued and outstanding Common Shares as at March 31, 2020. Total Common Shares purchased and cancelled under this NCIB was 393,930 at an average cost of \$4.09 per Common Share.

On April 13, 2021, the Corporation renewed its NCIB to purchase for cancellation during the next 12 months up to 600,000 Common Shares, representing approximately 6.6% of the issued and outstanding Common Shares at March 31, 2021. Total Common Shares purchased and cancelled under this current NCIB up to September 30, 2021 was 49,200 at an average cost of \$5.33 per Common Share.

On June 16, 2021, the Corporation announced a substantial issuer bid, pursuant to which the Corporation offered to purchase for cancellation up to 1,800,000 of its outstanding Common Shares at a purchase price of \$5.50 per Common Share in cash for an aggregate purchase price not to exceed \$9.9 million. On July 27, 2021, the Corporation purchased and cancelled 559,854 Common Shares pursuant to the offer for total consideration of \$3.1 million, excluding fees and expenses related to the offer totaling \$0.2 million.

In the three and nine months ended September 30, 2021, a total of 572,654 and 648,584 Common Shares were purchased for cancellation (2020 – 154,400 and 193,098 Common Shares).

The total number of Common Shares outstanding at September 30, 2021 was 8,426,835 (December 31, 2020 – 9,056,468; November 9, 2021 – 8,426,435).

## LIQUIDITY

### Liquidity and Capital Resources

As at September 30, 2021, the Corporation had working capital of \$6.9 million, \$13.4 million of committed capital available to Crown Power Fund from parties other than Crown, and an undrawn balance of \$20.0 million in respect of the Crown Credit Facility.

The Corporation's access to the undrawn balances of the Crown Credit Facility is subject to adherence to customary financial covenant restrictions. The uncalled committed capital available to Crown Power Fund may only be used to support the financing requirements of Crown Power Fund.

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

Working capital at September 30, 2021 was \$6.9 million compared with \$(9.9) million as at December 31, 2020, with the increase during the period related primarily to the reclassification of the outstanding balance of the Preceding Crown Credit Facility from a current liability to a non-current liability in the Corporation's non-consolidated financial statements upon the establishment of the Crown Credit Facility in May 2021 and the assumption of working capital in connection with the acquisitions of PSCC and PBC in March 2021 and April 2021, respectively, partially offset by the assumption of mortgages payable in connection with the acquisitions of PSCC and PBC, the derecognition of Crown Partners Fund as a subsidiary in July 2021, and the assumption of net negative working capital in connection with the acquisition of Lumbermens in May 2021.

A mortgage payable of \$9.2 million in relation to PBC has a maturity date of January 1, 2022. We are currently negotiating a six-month extension of this mortgage and expect this extension to be in effect prior to the current maturity date. A mortgage payable of \$3.3 million in relation to PSCC has a maturity date of August 26, 2022. We anticipate the full repayment and cancellation of this mortgage prior to its maturity date.

At September 30, 2021, \$19.5 million (59%) of the \$32.9 million committed to Crown Power Fund to that date by limited partners other than Crown had been drawn by Crown Power Fund, leaving \$13.4 million of committed capital available to Crown Power Fund from parties other than Crown. As at September 30, 2021, Crown Power Fund had total committed capital of \$57.9 million including commitments by Crown.

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

## Off-Balance Sheet Arrangements and Unfunded Commitments

### *Uncalled Commitments to Managed Investment Funds*

The Corporation, through its wholly owned subsidiary CCFC, has subscribed for limited partnership units in several investment funds managed or formerly managed by the Corporation, namely Crown Partners Fund, CCF IV Investment LP and Crown Power Fund. Through its ownership of these limited partnership units, the Corporation has made contractual commitments to contribute funds to each of these entities up to a prescribed maximum value per unit, as called by the respective general partners of these investment funds. The table below summarizes the total capital commitment of the Corporation to each investment fund, as well as the uncalled portion of such capital commitments as at each of September 30, 2021 and September 30, 2020.

AS AT SEP. 30 (THOUSANDS, EXCEPT UNITS)	2021			2020
	Units Subscribed by CCFC	Capital Commitment	Uncalled Capital Commitment	Uncalled Capital Commitment
Crown Partners Fund.....	76,869	\$ 61,495	\$ 20,295	\$ 34,859
CCF IV Investment LP.....	3,270	2,600	840	1,062
Crown Power Fund.....	25,000	25,000	10,195	9,514
Total.....			<u>\$ 31,330</u>	<u>\$ 45,435</u>

As the manager of Crown Power Fund, Crown controls the timing and level of funding requirements in relation to its capital commitments to this fund. The investment period of each of Crown Partners Fund and CCF IV Investment LP will expire on December 31, 2021, after which the assets of these funds will be managed down with a view to dissolving the funds in an orderly fashion prior to the end of their terms on September 30, 2025. Accordingly, we do not expect any future funding requirements in respect of Crown's uncalled capital commitments to Crown Partners Fund and CCF IV Investment LP.

### *Other Unfunded Commitments*

As at September 30, 2021, Crown Power Fund had committed to contracts valued at \$12.6 million in relation to the construction of power generation assets, of which \$9.7 million had been advanced to suppliers and contractors, resulting in an unfunded commitment of approximately \$2.9 million, of which \$1.7 million was attributable to non-controlling interests.

Through WireIE Inc., the Corporation had \$0.7 million in backhaul commitments relating to its use of broadband network infrastructure as at September 30, 2021.

The Corporation, through Galaxy, has an aggregate commitment with respect to its use of broadband network infrastructure of \$3.3 million as at September 30, 2021.

The Corporation has provided a guarantee of the financial obligations of Go Direct America Inc. in respect of the lease of a logistics facility in Groveport, Ohio. This lease has a 63-month term, is expected to commence in February 2022, and represents an aggregate commitment over its term of USD \$6.7 million in respect of base rent payments. This guarantee has been provided in relation to a commitment of the Corporation to acquire an equity interest in the parent company of Go Direct America Inc. in the three months ended December 31, 2021.

The Corporation has guaranteed the repayment of loans advanced to Share Purchase Plan Participants by a third-party financial institution pursuant to its executive share purchase plan which totaled \$1.7 million as at September 30, 2021 (December 31, 2020 - \$2.2 million), and which are secured by Common Shares owned by Share Purchase Plan Participants with a value of \$2.6 million as at September 30, 2021 (December 31, 2020 - \$2.0 million).

Crown has no other material off-balance sheet arrangements.

## REVIEW OF THE CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

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

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Nine Months Ended	
	2021	2020
Operating activities.....	14,324	9,247
Investing activities.....	46,471	(17,972)
Financing activities.....	(55,620)	18,299
Increase in cash and cash equivalents.....	5,175	9,574

### Operating Activities

Cash provided by operations totaled \$14.3 million in the nine months ended September 30, 2021 compared with \$9.2 million in the nine months ended September 30, 2020, a \$5.1 million increase due primarily to the acquisition of Galaxy in September 2020, partially offset by the derecognition of Crown Partners Fund as a subsidiary in July 2021.

### Investing Activities

Cash provided by investing activities totaled \$46.5 million in the nine months ended September 30, 2021 compared with cash used in investing activities of \$18.0 million in the nine months ended September 30, 2020. The increase compared with the prior-year period was due primarily to \$20.7 million of proceeds received from the sale of Crown Partners Fund LP units to non-controlling interests, a \$39.4 million reduction in the level of additions of investments, net proceeds from the sale of property and equipment under development and related deposits, and the recognition of distributions from Crown Partners Fund as cash related to investing activities, net of a reduced level of proceeds received from the repayment of debt securities.

### Financing Activities

Cash used by financing activities totaled \$55.6 million in the nine months ended September 30, 2021 compared with cash provided by financing activities of \$18.3 million in the nine months ended September 30, 2020. The primary financing-related uses of cash in the nine months ended September 30, 2021 included net repayments in respect of credit facilities, distributions paid by Crown Partners Fund and by Crown Power Fund to non-controlling interests, share repurchases and payments of lease obligations.

## **PART 5 – ACCOUNTING POLICIES AND INTERNAL CONTROLS**

### **ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS**

#### **Overview**

This MD&A of the condensed consolidated operating and financial performance of the Corporation for the three and nine months ended September 30, 2021 is prepared as of November 9, 2021. This discussion is the responsibility of management and should be read in conjunction with the Corporation's September 30, 2021 unaudited condensed consolidated interim financial statements and the notes thereto, prepared in accordance with IFRS, and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com). The board of directors has approved this MD&A. All amounts therein are expressed in Canadian dollars unless otherwise indicated.

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

#### **Critical Estimates and Accounting Policies**

The preparation of the 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 and nine months ended September 30, 2021 are included in the following notes in those financial statements:

- Note 3 – Significant accounting policies;
- Note 4 – Financial instruments;
- Note 5 – Investment in Crown Partners Fund;
- Note 7 – Share-based compensation;
- Note 13 – Acquisition of subsidiaries;
- Note 14 – Acquisition of PBC assets;
- Note 16 – Property and equipment;
- Note 17 – Network services contracts; and
- Note 18 – Property and equipment under development and related deposits.

Additional information about critical estimates and accounting policies can be found in the Corporation's 2020 audited consolidated financial statements and notes thereto and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Accounting Policies Adopted in the Current Period

- (a) As a result of the acquisition of PSCC on March 1, 2021 and the subsequent acquisition of PBC on April 15, 2021, the following accounting policy has been adopted:

Property and equipment under development and related deposits:

Property and equipment under development and related deposits includes (i) property under development comprising the carrying value of property owned by the Corporation that is in the course of development; and (ii) distributed power equipment under development and related deposits comprising the carrying value of distributed power assets owned by Crown Power Fund that are in the course of construction. See Note 3(h) in the 2020 audited consolidated financial statements as at and for the year ended December 31, 2020 for accounting policy details in respect of distributed power equipment under development and related deposits.

Property under development is recorded at the cost of the land plus all expenditures incurred to date that are necessary to bring the asset to working condition for its intended use, less any accumulated impairment losses. At each reporting date, the carrying amount of property under development is reviewed to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or cash-generating units ("CGUs"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated cash flows on the property, discounted to its present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

The property is not subject to depreciation until completion of its development phase, at which point is reclassified as part of property and equipment and measured at cost less any accumulated impairment losses.

- (b) As a result of the derecognition of Crown Partners Fund as a subsidiary of the Corporation and its recognition as an investment in associate effective July 13, 2021, the following accounting policies have been adopted:

Investment in associate

An associate is an entity in which the Corporation has significant influence, but not control or joint control, over the financial and operating policies. Investment in associate is accounted for using the equity method. It is initially recognized at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Corporation's share of the profit or loss until the date on which significant influence ceases.

When the Corporation's share of losses exceeds its interest in an associate, the Corporation's carrying amount is reduced to nil and recognition of further losses is discontinued, except to the extent that the Corporation has incurred legal or constructive obligations, or made payments on behalf of an associate. If the associate subsequently reports profits, the Corporation resumes recognizing its share of those profits only after its share of profits equals the share of accumulated losses not recognized. The Corporation assesses at each reporting period whether there is any objective evidence that its investment in associate is impaired in accordance with IAS 36, *Impairment of Assets*. Impairment losses are reversed in subsequent periods if the recoverable amount of the investment subsequently increases and the increase can be related objectively to an event occurring after the impairment was recognized.

## Loss of control

When the Corporation loses control over a subsidiary, it derecognizes the assets and liabilities of the subsidiary, and any related non-controlling interests and other components of equity. Any interest retained in the former subsidiary is remeasured at fair value as at the date at which control is lost. Any resulting gain or loss is recognized in profit or loss.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS

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

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

Management has limited the scope of design of its disclosure controls and procedures and its ICFR to exclude the controls, policies and procedures of PSCC, of which Crown acquired a 100% interest on March 1, 2021; PBC, of which Crown acquired a 100% interest on April 15, 2021 and Lumbermens, of which Crown acquired a 100% interest on May 6, 2021. The total aggregate assets acquired and total aggregate liabilities assumed at closing, before deducting amounts attributable to non-controlling interests, represented approximately 8.8% and 20.5% of total consolidated assets and total consolidated liabilities, respectively, as at September 30, 2021. The impact of the acquisitions on consolidated net income attributable to Shareholders for the three and nine months ended September 30, 2021 was a net loss of \$(1.5) million and \$(1.4) million, respectively. Management is committed to removing this limitation within the timeframe permitted by regulation. During the three-month period ended September 30, 2021, management removed the scope limitation in respect of Galaxy, of which Crown acquired a 100% interest on September 15, 2020.

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 September 30, 2021 that have materially affected, or are reasonably likely to materially affect, Crown’s ICFR. The Corporation will continue to monitor and mitigate the risks associated with any potential changes to its control environment in response to COVID-19.



## PART 6 – RISKS AND FORWARD-LOOKING STATEMENTS

### RISK FACTORS

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

In March 2020, the COVID-19 outbreak was declared a pandemic by the World Health Organization. Governments worldwide, including those jurisdictions in which Crown operates, have enacted emergency measures to combat the spread of the virus. These measures, which include the implementation of travel restrictions, self-imposed quarantine periods and social distancing, have caused a material disruption to businesses resulting in an economic slowdown and may, in the future, have further and larger impacts. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions; however, the success of these interventions is not yet determinable. The situation remains dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect on Crown and its investments is not known at this time but could be material.

In particular, such enhanced risks associated with COVID-19 include, but are not limited to: a reduction in interest income and an increase in credit loss provisions in the event that financial hardship causes an inability of borrowers to make contractual principal and interest payments to our associate, Crown Partners Fund, in which we are invested, on a timely basis; a deterioration in the ability of our associate Crown Partners Fund to achieve expected values on a timely basis from asset sales in connection with loan realizations; uncertainty regarding the valuation of the investments of our associate Crown Partners Fund due to potential difficulty in determining unobservable inputs to the valuation of non-public securities; the ability to access capital markets at a reasonable cost; and volatility in the trading price of the Corporation's securities. As a result of the limited direct impact that the COVID-19 pandemic and related government-imposed restrictions have had on Crown's revenues and business operations, Crown has not participated in any government-funded wage relief or other subsidy programs implemented in response to the pandemic.

In the short term, a risk to the Corporation is that all financing clients of our associate Crown Partners Fund repay their loans at an accelerated pace such that the revenues of Crown Partners Fund drop significantly and, as a result, distributions paid by Crown Partners Fund to Crown also drop significantly.

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

The primary risk factor for our associate Crown Partners Fund is credit risk, being the potential inability of one or more of its portfolio companies to meet their debt obligations to Crown Partners Fund. Through its ownership of equity and equity-related securities, Crown Partners Fund is also exposed to market price risk. A reduction in the value of the debt and/or equity-related investments held by Crown Partners Fund would reduce the value of both components of Crown's investment in associate, represented by its limited partnership and general partnership interests in Crown Partners Fund, and could reduce the level of distributions received by Crown in the future from Crown Partners Fund.

The primary risk factors for Crown Private Credit Fund are credit risk, being the risk that Crown Private Credit Fund might not be able to fully recover amounts owed to it by Mill Street through the ongoing receivership process or from PenEquity following a material deterioration in the collateral value for that loan, and market price risk in respect of the fair value of real estate properties owned by PSCC and PBC.

The primary risk factor for Crown Power Fund is credit risk, being the potential inability of counterparties to long-term power supply contracts to meet their obligations to Crown Power Fund. Crown Power Fund is also exposed to

the risk that project development advances provided to Operating Partners might not be appropriately applied to project development costs and that any resultant amounts owing to Crown Power Fund might not be recoverable.

The primary risk factor for Network Services businesses is contract cancellation risk, being the risk that an above-normal level of existing term contracts is not renewed and extended at maturity and that existing month-to-month contracts are canceled at an above-normal pace. To the extent that the level of network services revenue added through the establishment of new customer contracts does not sufficiently offset the impact of contract cancellations on network services revenue, the resulting reduction of operating leverage could negatively impact contribution of Network Services businesses to the consolidated net income of the Corporation. A related risk factor for WireIE Inc. is customer concentration risk, being the risk associated with WireIE Inc.'s reliance on the renewal of network services contracts with a significant customer, which comprise the majority of its accounts receivable and network services revenues to date. A similar risk factor exists for Galaxy by way of its reliance on the renewal of network service contracts with two significant customers, which comprise a significant portion of its accounts receivable and network services revenue to date. An additional risk factor for both WireIE Inc. and Galaxy is key third-party supplier risk, as each entity is reliant upon the provision of broadband signal and telecommunications capacity by key third-party suppliers which, if terminated or cancelled, could have an adverse impact on the financial condition and results of operations of the Network Services segment and results of operations.

The primary risk factors in connection with the Corporation's real estate investments are market price risk in respect of real estate asset valuations, refinancing risk in respect of mortgages payable, and estimation risk in respect of management's cash flow forecasts used in the determination of the carrying value of the lease earn-out note receivable.

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset, including the Crown Credit Facility. The Corporation's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Corporation's reputation. Certain obligations in respect of the provision for performance bonuses and non-controlling interests only become due as the related investment fund's assets are liquidated and liquidation proceeds are received, and as such, there is no associated liquidity risk.

See *Note 5 – Financial risk management* in the Corporation's December 31, 2020 audited consolidated financial statements.

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

## **FINANCIAL INSTRUMENTS AND ASSOCIATED RISKS**

The Corporation's financial instruments include cash and cash equivalents, accounts receivable, investments, lease earn-out note receivable, accounts payable and accrued liabilities, deferred compensation, network services vendor payable, contingent consideration, mortgages payable, credit facilities and convertible debentures – liability component.

The fair value of the Crown Credit Facility approximates its carrying value due to the variable rate of interest applicable to this instrument. The fair value of the convertible debenture – liability component as at September 30, 2021 is \$19.7 million. The convertible debenture – liability component is classified as Level 1 because they are actively traded on the TSX and the fair value is based on the quoted market prices. The fair values of other financial instruments approximate carrying value due to the short term to maturity of the instruments. The provision for deferred compensation is measured based on the market value of the Corporation's share price with the impact of any resultant change included in share-based compensation expense in the period.

Through its investment in Crown Partners Fund, the Corporation is indirectly exposed to credit risk and market risk associated with the debt and equity-related investments, respectively, of Crown Partners Fund.

The Corporation, through its subsidiary Crown Private Credit Fund, holds investments in debt securities, comprised of loans to PenEquity and Mill Street, which are measured at amortized cost and at FVTPL, respectively, and an equity security which is measured at FVTPL. The primary risk to the carrying value of these debt securities is credit risk.

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 primary risk to the FVTPL of equity securities, including those held directly by the Corporation and indirectly through its investment in Crown Partners Fund, 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 and its investment in Crown Partners Fund. Most of the debt instruments held directly by the Corporation and indirectly through its associate Crown Partners Fund are unrated and all are relatively illiquid. Repayments are dependent on the ability of the underlying businesses to generate sufficient cash flow from operations, refinancings or the sale of assets or equity. For loans carried by our associate Crown Partners Fund 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. In respect of the carrying value of loan investments held by Crown Partners Fund, which impacts the carrying value of the Corporation's investment in Crown Partners Fund, the determination of associated fair values and expected credit losses reflects the estimation of management of the investment manager of Crown Partners Fund, Crown Private Credit Inc.

The Corporation's investments, revenue and expenses are denominated primarily in Canadian currency such that there is limited exposure to currency risk. Through our investment in Crown Partners Fund, we are indirectly exposed to a limited degree of currency risk to the extent that the underlying operations of Crown Partners Fund's investee companies may be dependent on revenues or exposed to costs denominated in foreign currencies.

Additional information about financial instruments and associated risks can be found in the Corporation's 2020 audited consolidated financial statements and notes thereto and other public filings available on SEDAR at [www.sedar.com](http://www.sedar.com).

## FORWARD-LOOKING STATEMENTS

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

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

- the duration and full financial effect of the COVID-19 pandemic, as well as the direct and indirect impacts that the virus may have on the business, operations and financial condition of the Corporation and its borrowers;
- the Corporation's intentions for the use of its cash and cash equivalents and the timing thereof, including additional capital contributions to Crown Partners Fund, Crown Private Credit Fund and Crown Power Fund;
- the future capitalization of Crown Power Fund and Crown and future closings in relation thereto;
- the sourcing of deals from Crown's established network and its potential pipeline of projects;
- the prepayment and/or realization of the investments of Crown Private Credit and Crown Partners Fund;
- the alternative financial market and the general economy;
- the performance of financing clients;
- the effect of delays between the repayment of loans and of capital distributions from Crown Partners Fund and the redeployment of capital on Crown's financial condition;
- the determination of recovery levels and values realized on liquidation of security held, when necessary, for Crown's loans going forward;
- the ability to achieve a restructuring of the PenEquity loan that is favourable to Crown, and to maximize Crown's realization of this loan by advancing the development of certain of PenEquity's real estate assets;
- the ability to secure leases in respect of a prescribed area of available density in exchange for entitlement to future cash flows in respect of PSCC's sale of its ownership interest in a commercial property;
- the ability to achieve the intended development of the land acquired in connection with the partial extinguishment of the PenEquity loan and Crown's ability to maximize realization of the land at the time of an eventual disposition;
- the ability to refinance mortgage loans on terms acceptable to the Corporation, or to repay them, as they become due;
- the effect of the early repayment of loans and of an accelerated pace of capital distribution from Crown Partners Fund on anticipated revenue;
- the ability of Crown to direct the activities of its managed funds and to determine the timing and level of funding requirements in relation to its capital commitment to these funds;
- the future profitability of Operating Partners affiliated with Crown Power Fund and the expected recoverability of amounts owed to the Corporation by such Operating Partners;
- the distributed power market in general, and in our current geographic regions of focus in particular, and the ability of Crown Power Fund to source additional projects in which to invest going forward;

- the recoverability of costs incurred in the development of distributed power assets through the subsequent receipt of lease payments over the duration of the lease contracts in relation to such assets;
- the expected timing of distributed power projects under development becoming operational;
- the Corporation's intention to create a capital pool that invests in certain assets of Network Services businesses, to seek funding commitments to this capital pool by third-party investors, and to generate management fee revenue in relation to managing this capital pool;
- the estimated useful life and recoverability of carrying values in respect of intangible assets representing the fair value of service contracts assumed on the acquisitions of WireIE, Galaxy and Lumbermens;
- the Corporation's business plans and strategy;
- the Corporation's future cash flow and shareholder value;
- the non-recurring nature of certain expenses;
- the future recoverability of accounts receivable;
- Crown's future entitlement to base management and performance fees;
- the future accounting policies of the Corporation;
- the Corporation's ability to secure debt financing on terms acceptable to the Corporation (or obtaining debt financing); and
- the vesting of Options.

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

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

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

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

## **NON-IFRS MEASURES**

We disclose a number of financial measures in this MD&A that are calculated and presented using methodologies other than in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”). We utilize these measures in managing the business, including for performance measurement, capital allocation and valuation purposes and believe that providing these performance measures on a supplemental basis to our IFRS results is helpful to investors in assessing the overall performance of our businesses. These financial measures should not be considered as the sole measure of our performance and should not be considered in isolation from, or as a substitute for, similar financial measures calculated in accordance with IFRS. We caution readers that these non-IFRS measures or other financial metrics may differ from the calculations disclosed by other businesses and, as a result, may not be comparable to similar measures presented by other issuers and entities. Reconciliations of these non-IFRS financial measures to the most directly comparable financial measures calculated and presented in accordance with IFRS, where applicable, are included within this MD&A. Please refer to our *Glossary of Terms* beginning on page 47 for all non-IFRS measures.

## **MARKET AND INDUSTRY DATA**

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

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

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

# GLOSSARY OF TERMS

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

## References

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

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

- “**CCF III**” Crown Capital Fund III Management Inc.
- “**CCF IV Investment LP**” – Crown Capital Fund IV Investment, LP
- “**CCFC**” – Crown Capital Funding Corporation
- “**Crown Partners Fund**” – Crown Capital Partner Funding, LP
- “**Crown Partners Fund GP**” – Crown Capital LP Partner Funding Inc.
- “**Crown Power Fund**” – Crown Capital Power Limited Partnership
- “**Crown Power GP**” – 10824356 Canada Inc.
- “**Crown Private Credit Fund**” – Crown Capital Private Credit Fund, LP
- “**CPCP**” – Crown Private Credit Partners Inc.
- “**Galaxy**” – Galaxy Broadband Communications, Inc.
- “**Lumbermens**” – Lumbermens Credit Group Ltd.
- “**Mill Street**” – Mill Street & Co. Inc.
- “**NCOF LP**” – Norrep Credit Opportunities Fund, LP
- “**Onsite Power**” – Onsite Power Partners Ltd.
- “**PDLP**” PenEquity Development LP
- “**PenEquity**” – PenEquity Realty Corporation
- “**PBC**” – PRC Barrie Corp. and Penady (North Barrie) Limited, collectively
- “**PSCC**” – PRC Stoney Creek Corp. and Penady (Stoney Creek) Ltd., collectively
- “**PSCC**” – PRC Stoney Creek Corp. and Penady (Stoney Creek) Ltd., collectively
- “**WireIE**” – WireIE Holdings International Inc.
- “**WireIE Canada**” – WireIE (Canada) Inc.
- “**WireIE Inc.**” – WireIE Inc.

## Non-IFRS Measures

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

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

AS AT SEP 30, 2021 AND DEC. 31, 2020 (THOUSANDS)	2021	2020
Total consolidated liabilities and equity.....	<b>151,038</b>	325,823
Less: non-controlling interests' share of liabilities		
Accounts payable and accrued liabilities.....	<b>(125)</b>	(496)
Distributions payable to non-controlling interests.....	-	(1,460)
Provision for performance bonus.....	-	(1,984)
Credit facilities.....	-	(20,795)
Non-controlling interests.....	<b>(18,935)</b>	(139,506)
Total capitalization at our share.....	<b>131,978</b>	161,581

### *Adjusted Funds from Operations*

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

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

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



Adjusted Funds from Operations in the three and nine months ended September 30, 2021 totaled \$2.4 million and \$10.1 million, respectively, compared with \$2.4 million and \$10.1 million in the three and nine months ended September 30, 2020, respectively.

A reconciliation of earnings before income taxes to Adjusted Funds from Operations for the three and nine months ended September 30, 2021 and September 30, 2020 is shown in the following table:

FOR THE PERIODS ENDED SEP. 30 (THOUSANDS)	Three Months		Nine Months	
	2021	2020	2021	2020
<b>Income (loss) before income taxes attributable to Shareholders</b> .....	<b>529</b>	(10,875)	<b>\$ 1,500</b>	\$ (13,878)
Adjustments for amounts attributable to Shareholders in relation to: <sup>1</sup>				
Finance costs.....	<b>670</b>	1,258	<b>3,001</b>	\$ 3,733
Depreciation expense, net of lease payments on right-of-use assets.....	<b>646</b>	681	<b>1,738</b>	\$ 2,970
Subtotal - Earnings attributable to Shareholders before income taxes, finance costs and depreciation expense, net of lease payments on right-of-use assets.....	<b>1,845</b>	(8,936)	<b>6,239</b>	(7,175)
Adjustments for amounts attributable to Shareholders in relation to: <sup>1</sup>				
Non-cash share-based compensation.....	<b>(1,019)</b>	394	<b>(546)</b>	458
Asset impairment expense.....	<b>2,212</b>	178	<b>2,283</b>	504
Share of earnings of Crown Partners Fund attributable to limited partnership interest.....	<b>(1,616)</b>	-	<b>(1,616)</b>	-
Income distributions received from Crown Partners Fund.....	<b>1,071</b>	-	<b>1,071</b>	-
Gain on acquisition.....	-	-	<b>(73)</b>	-
Net unrealized investment (gains) losses.....	-	(694)	<b>1,299</b>	(334)
Provision for credit losses.....	<b>(19)</b>	11,147	<b>1,213</b>	15,347
Finance fees received in investments carried at amortized cost but not included in fees and other income.....	-	-	-	851
Amortization component of interest revenue on loans carried at amortized cost.....	-	(116)	<b>(173)</b>	(393)
Network services fees received on customer contracts but not included in contractual network services revenue.....	<b>78</b>	444	<b>882</b>	974
Amortization component of network services revenue.....	<b>(131)</b>	(62)	<b>(466)</b>	(126)
<b>Adjusted Funds from Operations</b> .....	<b>\$ 2,421</b>	<b>\$ 2,355</b>	<b>\$ 10,113</b>	<b>\$ 10,106</b>

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

Adjusted Funds from Operations for the three months ended September 30, 2021 of \$2.4 million were consistent with \$2.4 million earned in the three months ended September 30, 2020. Compared with the prior-year period, amounts included in respect of our interest in Crown Partners Fund declined due to the derecognition of the fund as a subsidiary, to a reduction in the balance of the fund's investments and to a reduction in Crown's percentage ownership of the fund, and the aggregate impact if this was generally offset by an increase in Adjusted Funds from Operations attributable to our network services business following the acquisition of Galaxy in September 2020. Note that in determining Adjusted Funds from Operations for the current year period, we excluded our share of earnings of Crown Partners Fund attributable to our limited partnership interest of \$1.6 million and included distributions of \$1.1 million paid to us by Crown Partners Fund, which does not represent a full distribution of earnings attributable to its limited partners and does not include earnings in respect of our general partnership interest.

The following table provides a quarterly reconciliation of earnings before income taxes to Adjusted Funds from Operations for the period from October 1, 2019 to September 30, 2021.

FOR THE PERIODS ENDED (THOUSANDS)	2021			2020			2019	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
<b>Earnings (loss) before income taxes attributable to Shareholders....</b>	<b>\$ 529</b>	<b>\$ (365)</b>	<b>\$ 1,336</b>	<b>\$ (2,368)</b>	<b>\$ (10,875)</b>	<b>\$ (1,878)</b>	<b>\$ (1,125)</b>	<b>\$ 1,631</b>
Adjustments for amounts attributable to Shareholders in relation to: <sup>2</sup>								
Finance costs.....	<b>670</b>	1,100	1,231	1,246	1,258	1,302	1,173	1,024
Depreciation expense, net of lease payments on right-of-use assets.....	<b>646</b>	552	540	1,189	681	711	1,578	298
Subtotal - Earnings (loss) attributable to Shareholders before income taxes, finance costs and depreciation expense, net of lease payments on right-of-use assets.....	<b>1,845</b>	1,287	3,107	67	(8,936)	135	1,626	2,953
Adjustments for amounts attributable to Shareholders in relation to: <sup>2</sup>								
Non-cash share-based compensation.....	<b>(1,019)</b>	423	50	243	394	93	(29)	304
Asset impairment expense.....	<b>2,212</b>	71	-	1,951	178	320	6	247
Share of earnings of Crown Partners Fund attributable to limited partnership interest.....	<b>(1,616)</b>	-	-	-	-	-	-	-
Income distributions received from Crown Partners Fund.....	<b>1,071</b>	-	-	-	-	-	-	-
(Gain) loss on acquisition.....	-	(73)	-	-	-	-	-	(280)
Net unrealized investment (gains) losses.....	-	1,076	223	230	(694)	(979)	1,339	(228)
Provision for credit losses (recovery).....	<b>(19)</b>	679	553	224	11,147	3,909	291	246
Finance fees received in investments carried at amortized cost but not included in fees and other income.....	-	-	-	105	-	46	805	214
Amortization component of interest revenue on loans carried at amortized cost.....	-	(85)	(88)	(229)	(116)	(103)	(174)	(210)
Network services fees received on customer contracts but not included in contractual network services revenue.....	<b>78</b>	53	752	437	444	199	331	133
Amortization component of network services revenue.....	<b>(131)</b>	(203)	(132)	(73)	(62)	(39)	(25)	191
<b>Adjusted Funds from Operations.....</b>	<b>\$ 2,421</b>	<b>\$ 3,228</b>	<b>\$ 4,465</b>	<b>\$ 2,955</b>	<b>\$ 2,355</b>	<b>\$ 3,581</b>	<b>\$ 4,170</b>	<b>\$ 3,570</b>

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

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