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Condensed Consolidated Interim Financial Statements of

**CROWN CAPITAL PARTNERS INC.**

Three and nine months ended September 30, 2017 and  
2016

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# CROWN CAPITAL PARTNERS INC.

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

(expressed in thousands of Canadian dollars)

As at	September 30, 2017	December 31, 2016
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 15,715	\$ 19,262
Accounts receivable	1,678	1,747
Prepaid expenses	85	71
	17,478	21,080
Investments, at fair value through profit or loss (Note 4)	194,742	158,951
Executive share purchase loans (Note 8)	2,239	-
Equipment	12	16
Deferred financing costs (Note 9)	576	789
Deferred income taxes	1,237	1,539
	\$ 216,284	\$ 182,375

## Liabilities and Shareholders' Equity

<b>Current Liabilities</b>		
Accounts payable and accrued liabilities	\$ 959	\$ 2,010
Deferred interest revenue	461	-
Distributions payable to non-controlling interest	2,193	1,116
Provision for performance bonus (Note 5)	984	-
Income taxes payable	166	909
	4,763	4,035
Provision for performance bonus (Note 5)	1,231	2,910
Non-controlling interests (Note 10)	106,798	73,911
<b>Total Liabilities</b>	112,792	80,856
<b>Equity</b>		
Share capital (Note 6)	96,880	96,635
Contributed surplus	2,549	1,900
Retained earnings	4,063	2,984
<b>Total Equity</b>	103,492	101,519
	\$ 216,284	\$ 182,375

### Subsequent events (Note 12)

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

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

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

	For the three months ended		For the nine months ended	
	September 30,		September 30,	
	2017	2016	2017	2016
<b>Revenues</b>				
Fees and other income	\$ 141	\$ 160	\$ 3,747	\$ 1,528
Interest revenue	4,816	2,968	14,824	7,921
Performance fee distributions (Note 5)	-	-	1,044	-
Net gain on investments				
Net realized gain / (loss) from investments	(1,086)	-	2,200	1,741
Net change in unrealized gains in fair value of investments	1,731	(255)	(1,742)	1,759
	5,602	2,873	20,073	12,949
<b>Expenses</b>				
Salaries, management fees and benefits	360	301	1,725	1,224
Share-based compensation (Note 7)	485	374	1,301	1,222
General and administration	314	263	1,129	1,027
Performance bonus expense	214	18	1,612	593
Depreciation	1	2	4	4
Finance costs (Note 9)	134	-	422	-
	1,508	958	6,193	4,070
<b>Earnings before income taxes</b>	4,094	1,915	13,880	8,879
Income taxes				
Current tax expense	506	356	1,710	1,816
Deferred tax	(19)	79	302	96
	487	435	2,012	1,912
<b>Net income and comprehensive income</b>	\$ 3,607	\$ 1,480	\$ 11,868	\$ 6,967
<b>Net income and comprehensive income attributable to:</b>				
Shareholders of the Corporation	\$ 1,113	\$ 833	\$ 4,624	\$ 4,220
Non-controlling interests (Note 10)	2,494	647	7,244	2,747
	\$ 3,607	\$ 1,480	\$ 11,868	\$ 6,967
Earnings per share attributable to shareholders:				
Basic	\$ 0.12	\$ 0.09	\$ 0.49	\$ 0.44
Diluted	\$ 0.11	\$ 0.08	\$ 0.47	\$ 0.43
Weighted average number of shares, basic	9,538,188	9,514,921	9,526,442	9,500,160
Weighted average number of shares, diluted	9,848,924	9,803,951	9,822,092	9,739,504

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

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

For the nine months ended September 30, 2017 and 2016

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

	Number of shares	Share capital	Contributed surplus	Retained earnings	Total Equity
Balance as at January 1, 2016	9,488,094	\$ 96,386	\$ 836	\$ 2,038	\$ 99,260
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	4,220	4,220
Share-based compensation (Note 7)	-	-	1,222	-	1,222
Cash-settled share-based compensation (Note 7)	-	-	(187)	13	(174)
Issuance of common shares (Note 6)	36,777	355	(355)	-	-
Shares repurchased (Note 6)	(5,800)	(59)	-	9	(50)
Dividends declared (Note 6)	-	-	-	(3,135)	(3,135)
<b>Balance as at September 30, 2016</b>	<b>9,519,071</b>	<b>\$ 96,682</b>	<b>\$ 1,516</b>	<b>\$ 3,145</b>	<b>\$ 101,343</b>
Balance as at January 1, 2017	9,514,759	\$ 96,635	\$ 1,900	\$ 2,984	\$ 101,519
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	4,624	4,624
Share-based compensation (Note 7)	-	-	1,301	-	1,301
Cash-settled share-based compensation (Note 7)	-	-	(280)	(25)	(305)
Issuance of common shares (Note 6)	38,274	372	(372)	-	-
Shares repurchased (Note 6)	(12,458)	(127)	-	5	(122)
Dividends declared (Note 6)	-	-	-	(3,525)	(3,525)
<b>Balance as at September 30, 2017</b>	<b>9,540,575</b>	<b>\$ 96,880</b>	<b>\$ 2,549</b>	<b>\$ 4,063</b>	<b>\$ 103,492</b>

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

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

(expressed in thousands of Canadian dollars)

For the nine months ended September 30,	2017	2016
Cash provided by (used in) operating activities		
Net income and comprehensive income	\$ 11,868	\$ 6,967
Non-cash items:		
Net realized (gain) loss from investments	(2,200)	(1,741)
Net change in unrealized gains in fair value of investments	1,742	(1,759)
Depreciation	4	4
Deferred income tax	302	96
Share-based compensation	996	1,049
Provision for performance bonus, net of payments (Note 5)	(695)	593
Amortization of deferred finance costs (Note 9)	212	-
Net change in non-cash working capital (Note 11)	(489)	(5,456)
	11,740	(247)
Cash provided by (used in) investing activities		
Proceeds from repayment of debt securities	43,753	-
Proceeds from sale of equity securities	1,390	4,082
Purchase of investments	(80,475)	(15,625)
Purchase of property, plant & equipment	-	(11)
	(35,332)	(11,554)
Cash provided by (used in) financing activities		
Non-controlling interest contributions to CCF IV LP (Note 10)	40,966	20,622
Distributions paid by NCOF II to non-controlling interest	(6,121)	(1,695)
Distributions paid by CCF IV to non-controlling interest	(8,125)	(1,100)
Executive share purchase loan advances	(2,239)	-
Shares repurchased (Note 6)	(122)	(50)
Dividends (Note 6)	(3,525)	(3,135)
Net change in non-cash working capital (Note 11)	(789)	-
	20,045	14,642
Increase (decrease) in cash and cash equivalents	(3,547)	2,841
Cash and cash equivalents, beginning of period	19,262	43,641
Cash and cash equivalents, end of period	\$ 15,715	\$ 46,482
Supplemental cash flow information:		
Interest received in the period	\$ 14,999	\$ 7,559
Income taxes paid in the period	\$ 2,453	\$ 1,908

See accompanying notes to consolidated financial statements.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and nine months ended September 30, 2017 and 2016

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

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## 1. Reporting entity:

Crown Capital Partners Inc. (the “Corporation”) was incorporated under the Canada Business Corporations Act on September 8, 1999 and commenced operations effective October 1, 2000. The Corporation provides investment management services and its registered office is Suite 888 3<sup>rd</sup> Street S.W., Calgary, Alberta. These condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2017 and 2016 comprise the Corporation and its subsidiaries.

On July 9, 2015, the Corporation issued 5,910,000 common shares pursuant to an Initial Public Offering (“IPO”). Immediately prior to the closing of the IPO, the Corporation acquired 69.75% of the outstanding limited partnership units of Norrep Credit Opportunities Fund II, LP (“NCOF II”) in exchange for 3,214,494 common shares of the Corporation.

Crown Capital Fund III Management Inc. (“CCF III”), a wholly-owned subsidiary, is the general partner of Norrep Credit Opportunities Fund, LP, and manages this fund. CCF III was also the general partner and manager of NCOF II and Norrep Credit Opportunities Fund II (Parallel), LP (“NCOF II (Parallel)”) until their dissolution effective June 30, 2017.

On September 4, 2015, Crown Capital Fund IV Management Inc. (“CCF IV”), a wholly-owned subsidiary, was incorporated. CCF IV is the general partner of Crown Capital Fund IV, LP (“CCF IV LP”). In September 2015, the Corporation, through its wholly-owned subsidiary, Crown Capital Funding Corporation (“CCFC”), subscribed for 50,000 units of CCF IV LP, which at that time was a 50% interest. In July 2016, an additional 25,000 units were subscribed by other investors, reducing the Corporation’s interest to 40% effective July 1, 2016. In January 2017, an additional 50,000 units were issued of which CCFC subscribed for 11,250 units, reducing the Corporation’s interest to 35% effective January 1, 2017. In July 2017, an additional 50,000 units were issued of which CCFC subscribed for 17,500 units directly. Each unit of CCF IV LP includes a commitment to invest up to \$1,000 in CCF IV LP.

On July 13, 2017, the Corporation, through CCFC, also subscribed for 3,570 units in Crown Capital Fund IV Investment, LP (“CCF IV Investment”), representing an interest in CCF IV Investment of approximately 22.5%. CCF IV Investment has an interest in CCF IV LP of approximately 6.9%. Including its investment in CCF IV Investment, Crown held an effective interest in CCF IV LP of 36.5%, effective July 1, 2017. Each unit of CCF IV Investment includes a commitment to invest up to \$1,000 in CCF IV Investment.

On December 16, 2015, Crown Capital Private Credit Management Inc. (“CCPC MI”), a wholly-owned subsidiary, was incorporated. CCPC MI is the general partner of Crown Capital Private Credit Fund, LP (“CCPC LP”), which was formed on December 16, 2015. The Corporation, through CCFC, owns 100% of the outstanding limited partnership units of CCPC LP.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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## 2. Basis of preparation:

### (a) Statement of compliance:

These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. They do not include all the information required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards as issued by the IASB. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Corporation's financial position and results of operations since the last annual consolidated financial statements as at and for the year ended December 31, 2016. These condensed consolidated interim financial statements should be read in conjunction with the annual consolidated financial statements as at and for the year ended December 31, 2016.

These condensed consolidated interim financial statements were authorized for issue by the Corporation's Board of Directors on November 7, 2017.

### (b) Basis of measurement:

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

### (c) Functional and presentation currency:

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

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

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

The significant judgments made by management in applying the Corporation's accounting policies and key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2016.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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### 3. Significant accounting policies:

The accounting policies applied to these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at and for the year ended December 31, 2016.

(a) New standards and interpretations not yet adopted:

At the date of these condensed consolidated interim financial statements, the following standards relevant to the Corporation were not yet effective:

**IFRS 9 Financial Instruments:** The new standard, which is intended to replace IAS 39 Financial Instruments: Recognition and Measurement, enhances the ability of investors and other users to understand the accounting of financial assets and reduces complexity. The approach to classifying an asset as either amortized cost or fair value in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of its financial assets. IFRS 9 also introduces a new impairment model based on expected losses. IFRS 9 is effective January 1, 2018 and must be applied retrospectively with some exceptions. The restatement of prior periods is optional. The Corporation anticipates measuring some of its debt instruments at amortized cost and others at fair value, and is currently evaluating the impact that the adoption of IFRS 9 will have on its consolidated financial statements. This process is expected to be complete by the end of 2017.

**IFRS 15 Revenue from Contracts with Customers:** The standard provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 applies to annual reporting periods beginning on or after January 1, 2018, and will be applied by the Corporation effective January 1, 2018. The Corporation is currently evaluating the impact of IFRS 15 on its financial statements, if any.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

## 4. Fair value measurement:

### (a) Investments

As at	September 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Canadian equity securities	\$ 3,286	\$ 4,885	\$ 2,685	\$ 4,485
Canadian debt securities	188,907	189,857	153,248	154,466
Total Investments	\$ 192,193	\$ 194,742	\$ 155,933	\$ 158,951

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

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

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

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

## 4. Fair value measurement (continued):

### (a) Investments (continued)

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

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

### (b) Fair value hierarchy – Financial instruments measured at fair value

The tables below analyze investments measured at fair value at September 30, 2017 and December 31, 2016 by the level in the fair value hierarchy into which the fair value measurement is categorized. The amounts are based on the values recognized in the statement of financial position. There were no transfers between levels during the period.

	September 30, 2017			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Canadian equity securities	\$ 1,062	\$ -	\$ -	\$ 1,062
Canadian warrants	-	2,347	1,476	3,823
Canadian debt securities	-	-	189,857	189,857
Total Investments	\$ 1,062	\$ 2,347	\$ 191,333	\$ 194,742

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

## 4. Fair value measurement (continued):

(b) Fair value hierarchy – Financial instruments measured at fair value (continued)

	December 31, 2016			
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Canadian equity securities	\$ 1,684	\$ -	\$ -	\$ 1,684
Canadian warrants		2,801		2,801
Canadian debt securities	-	-	154,466	154,466
Total Investments	\$ 1,684	\$ 2,801	\$ 154,466	\$ 158,951

The Level 3 investments as at September 30, 2017 and December 31, 2016 comprise private investments in Canadian debt and Canadian warrants. Each loan that is current is valued using the discounted present value of expected cash flows arising from these debt instruments, while the fair value of non-current loans is determined using different valuation approaches. At September 30, 2017 there is one loan in default that is valued on a liquidation basis and for which interest is no longer being accrued. The Canadian warrants classified as Level 3 are valued based on the estimated net asset value.

Observable inputs used in the development of an appropriate discount rate include Government of Canada benchmark interest rate for the term of the individual loan and the BBB-rated corporate interest rate spread for the term of the individual loan.

Significant unobservable inputs used in developing the appropriate discount rate include an illiquidity spread as well as a credit spread, both of which increase the discount rate. These rates are set initially at a level such that the loan valuation equals the initial purchase cost of the loan and are subsequently adjusted at each valuation date to reflect management's current assessment of market conditions.

All four components of the discount rate are subject to adjustment based on changing market conditions. Both the Government of Canada benchmark interest rate and the BBB-rated corporate interest rate spread will increase or decrease as market interest rates rise or fall. The illiquidity spread and additional credit spread are reviewed at each valuation date and are adjusted based on both management's current assessment of market conditions and the economic performance of the individual investment.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

## 4. Fair value measurement (continued):

(b) Fair value hierarchy – Financial instruments measured at fair value (continued)

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

<b>September 30, 2017</b>	
	<b>Level 3 Securities</b>
Beginning balance, January 1, 2017	\$ 154,466
Purchases	79,334
Repayment	(43,754)
Realized gains	2,826
Net change in unrealized gains	(1,539)
Balance, September 30, 2017	\$ 191,333

  

<b>September 30, 2016</b>	
	<b>Level 3 Securities</b>
Beginning balance, January 1, 2016	\$ 79,737
Purchases	15,000
Net change in unrealized gains	2,830
Balance, September 30, 2016	\$ 97,567

The most significant input into the calculation of fair value of Level 3 debt investments is the discount rate applied to expected future cash flows. If the discount rate increased (decreased) by 100 bps, the fair value of Level 3 investments at September 30, 2017 would decrease by \$4,729 or increase by \$4,971, respectively. The most significant input into the calculation of fair value of the Level 3 debt investment being valued on a liquidation basis is the estimated proceeds from the liquidation of the borrower's assets. The estimation of such proceeds is subject to change and the timing and level of actual proceeds received might vary from current expectations, resulting in adjustments to the fair value of this debt investment in future periods.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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## 4. Fair value measurement (continued):

### (c) Canadian debt instruments

As at September 30, 2017, investments held in the form of Canadian debt securities had coupon interest rates ranging from 8.0% to 14.0% (2016 – 8.0% to 14.0%) per annum with maturity dates from November 30, 2017 to December 16, 2025 (2016 – June 1, 2018 to December 16, 2025).

### (d) Financial instruments not measured at fair value

The carrying values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and distributions payable to non-controlling interests approximate their fair values due to their short term to maturity. The carrying value of the executive share purchase loans approximates the fair value due to the market interest rate on the loans.

## 5. Provision for performance bonus:

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

Prior to the closing of the IPO, the Corporation committed to pay 100% of performance fee distributions accrued to June 30, 2015 from NCOF II and NCOF II (Parallel) to the Pre-IPO APBP Participants. In addition, the Corporation’s current compensation policy provides that 50% of such performance fee distributions earned after the closing of the IPO will be distributed to the Pre-IPO APBP Participants who are employees with the other 50% retained by the Corporation.

Allocation of the units of the APBP relating to CCF IV LP commenced in 2015 and will continue until 2022 with 50% of performance fees recognized by the fund allocated to employees.

Performance bonus amounts will be paid to APBP Participants commencing on the repayment of all of the invested capital and payment of a prescribed preferential return to the limited partners in the related investment funds.

In the nine months ended September 30, 2017, the Corporation received \$1,044 in relation to performance fee distributions from NCOF II (Parallel) prior to the dissolution of this investment fund, of which \$819 was recognized as performance bonus expense.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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## 5. Provision for performance bonus (continued):

As at September 30, 2017, the Corporation had accrued a provision for performance bonus payable of \$2,215 (December 31, 2016 - \$2,910), including \$742 (December 31, 2016 - \$2,349) relating to performance fees received from NCOF II, \$242 (December 31, 2016 - \$Nil) relating to performance fees received from NCOF II (Parallel) and \$1,231 (December 31, 2016 - \$561) relating to performance fees accrued to date by CCF IV LP. The amounts relating to NCOF II and NCOF II (Parallel), which were dissolved June 30, 2017, were withheld as a provision for contingencies, if any, relating to the funds which are expected to be resolved prior to March 31, 2018 at which time the remaining provision will be paid to the APBP participants.

## 6. Share capital:

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

On April 8, 2016, the Corporation commenced a normal course issuer bid ("NCIB") to purchase during the next twelve months up to 620,000 common shares, representing approximately 6.5% of its issued and outstanding shares as at April 6, 2016. On April 10, 2017, the Corporation renewed the NCIB to purchase up to 310,000 common shares, representing approximately 3.3% of its issued and outstanding shares as at April 4, 2017, over the next twelve months, or until such time as the bid is completed or terminated at the Corporation's option. Any shares purchased under this bid are purchased on the open market at the prevailing market price at the time of the transaction. Common shares acquired under this bid are cancelled.

During the three and nine months ended September 30, 2017, the Corporation purchased and cancelled a total of 900 and 12,458 shares for total consideration of \$9 and \$122, respectively (average cost \$10.04 and \$9.79 per share, respectively), (for the three and nine months ended September 30, 2016 - 1,100 and 5,800 shares for \$10 and \$50, respectively). The average book value of the shares repurchased in the nine months ended September 30, 2017 of \$10.16 per share was recorded as a reduction to share capital. The excess of the average book value over the market price, including transaction costs, totaled \$5 (September 30, 2016 - \$9) and was recorded as an increase to retained earnings. Total shares purchased and cancelled under the current NCIB up to September 30, 2017 was 5,058.

During the three and nine months ended September 30, 2017, the Corporation issued 24,043 and 38,274 shares, respectively, as vested share-based compensation. During the three and nine months ended September 30, 2016, the Corporation issued 24,961 and 36,777 shares, respectively, as vested share-based compensation (see Note 7). The Corporation, for the nine months ended September 30, 2017, reclassified \$372 (September 30, 2016 - \$355) from contributed surplus to share capital for these shares.

During the nine months ended September 30, 2017, the Corporation paid dividends of \$0.37 per share (September 30, 2016 - \$0.33 per share) for a total payment of \$3,525 (2016 - \$3,135).

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Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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## 7. Share-based compensation:

The Corporation issues performance share units (“PSUs”), restricted share units (“RSUs”), Transition Restricted Share Units (“TRSUs”) and Retainer Restricted Share Units (“RRSUs”), collectively (“Share Units”), to key management personnel, directors and employees. The PSUs vest when certain performance objectives are achieved. TRSUs all vest on July 9, 2018. RSUs issued to employees vest on July 9, 2018, January 1, 2019 and January 3, 2020 provided the holder of the Share Units remains an employee of the Corporation. RSUs issued to directors vest over a three-year period from the issue date provided the holder remains a director of the Corporation. RRSUs are issued only to directors and vest immediately upon grant and, on the grant date, each is exchanged for one common share of the Corporation.

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

Stock options granted are valued using a Black-Scholes formula and the expense is recognized over the vesting period. The stock options vest over a three-year period and have a five-year term and an exercise price of \$11.00. As at September 30, 2017, 282,445 (December 31, 2016 - 146,524) stock options had vested but had not been exercised and an additional 188,949 (December 31, 2016 – 299,870) stock options which had not vested remained outstanding.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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

The Corporation issued 92,995 and 107,424 Share Units during the nine months ended September 30, 2017 and 2016, respectively, and 66,956 and 55,321 Share Units vested, respectively. Of the Share Units that vested in the nine months ended September 30, 2017 and 2016, 28,682 and 18,544 Share Units, respectively, were cash-settled for \$305 and \$174, respectively, to pay applicable withholding taxes, and 38,274 and 36,777, respectively, common shares were issued.

The tables below detail the share-based compensation expense recognized in the nine months ended September 30, 2017 and 2016. Share-based compensation expense is recognized over the expected vesting period of each award.

For the nine months ended September 30, 2017						
	Number				Number	Expensed in
	outstanding at	Issued in	Vested or	Forfeited	at September	period
	January 1, 2017	period	exercised		30, 2017	(000's)
TRSUs <sup>1</sup>	190,976	7,095	-	-	198,071	\$ 477
PSUs <sup>2</sup>	46,410	42,870	(51,361)	-	37,919	449
RSUs <sup>2</sup>	51,677	37,915	(10,480)	-	79,112	229
RRSUs	-	5,115	(5,115)	-	-	55
Total Share Units	289,063	92,995	(66,956)	-	315,102	1,210
Stock options	446,394	31,818	-	(6,818)	471,394	91
Total	735,457	124,813	(66,956)	(6,818)	786,496	\$ 1,301

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

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

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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

For the nine months ended September 30, 2016						
	Number				Number	Expensed in
	outstanding at	Issued in	Vested or	Forfeited	at September	period
	January 1, 2016	period	exercised		30, 2016	(000's)
TRSUs <sup>1</sup>	181,818	6,887	-	-	188,705	\$ 438
PSUs <sup>2</sup>	36,528	51,427	(37,447)	-	50,508	350
RSUs <sup>2</sup>	29,168	37,294	(6,058)	-	60,404	138
RRSUs	-	11,816	(11,816)	-	-	104
Total Share Units	247,514	107,424	(55,321)	-	299,617	1,030
Stock options	491,849	-	-	(31,818)	460,031	192
Total	739,363	107,424	(55,321)	(31,818)	759,648	\$ 1,222

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

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

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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## 8. Executive share purchase loans:

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

During the nine months ended September 30, 2017, the Corporation advanced \$2,250 of new loans under the Share Purchase Plan and \$28 of principal was repaid. As at September 30, 2017, \$2,239 of loans were outstanding (December 31, 2016 - \$nil), including accrued interest of \$17. The loans under the Share Purchase Plan bear interest at prime (3.2% as at September 30, 2017), mature on June 3, 2024 and are personally guaranteed by Participants. The shares are pledged as security for the loans and had a fair value of \$2,154 as at June 30, 2017.

## 9. Credit facility:

On December 30, 2016, the Corporation entered into an agreement for a \$35 million senior secured revolving credit facility (the “Credit Facility”) with Alberta Treasury Branches and Business Development Bank of Canada. The Corporation will use the Credit Facility to fund investments in mid-market companies. The Credit Facility provides financing at a variable interest rate based on Bankers Acceptances rate plus 375 bps to 425 bps and has a customary set of covenants. The Credit Facility matures on December 30, 2019 and is subject to a one year extension annually on each December 30. As of September 30, 2017, \$nil (December 31, 2016 - \$nil) has been drawn on the Credit Facility.

In relation to the Credit Facility, the Corporation incurred \$789 of deferred financing costs which are being amortized over the initial three-year term. In the three and nine months ended September 30, 2017, \$134 and \$422, respectively, (September 30, 2016 - \$nil) was expensed as finance costs relating to the Credit Facility for amortized deferred financing costs and standby fees.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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

As at	September 30, 2017		
	NCOF II	CCF IV LP	Total
NCI percentage	30.25%	63.5% <sup>1</sup>	
Beginning balance, January 1, 2017	\$ 5,616	\$ 68,295	\$ 73,911
Net income and comprehensive income	350	6,894	7,244
Contributions	-	40,966	40,966
Distributions	(5,966)	(9,357)	(15,323)
Balance, September 30, 2017	-	106,798	106,798

1. NCI percentage in CCF IV decreased to 63.5% from 65% effective July 1, 2017.

As at	September 30, 2016		
	NCOF II	CCF IV LP	Total
NCI percentage	30.25%	60.0% <sup>2</sup>	
Beginning balance, January 1, 2016	\$ 6,407	\$ 18,164	\$ 24,571
Net income and comprehensive income	935	1,812	2,747
Contributions	-	20,622	20,622
Distributions	(1,696)	(1,603)	(3,299)
Balance, September 30, 2016	\$ 5,646	\$ 38,995	\$ 44,641

2. NCI percentage in CCF IV increased to 60% from 50% effective July 1, 2016.

# CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the nine months ended September 30, 2017 and 2016

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

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

Nine months ended September 30,	2017	2016
Accounts receivable	\$ 69	\$ (3,675)
Prepaid expenses	(14)	(9)
Accounts payable and accrued liabilities	(1,051)	71
Deferred interest revenue	461	(1,751)
Income tax payable	(743)	(92)
Total	\$ (1,278)	\$ (5,456)
Net change attributable to operating activities	(489)	(5,456)
Net change attributable to financing activities	(789)	-

## 12. Subsequent events:

In relation to the receivership process for Petrowest Corporation (“Petrowest”), on November 3, 2017 the Court of Queen’s Bench of Alberta approved the acquisition of Petrowest’s Civil division by RBee Aggregate Consulting Ltd. (“RBee”), a newly established company in which a 50% equity interest is held by each of the management of the operations of RBee Crushing and a lending syndicate comprised of CCF IV LP (with an approximate 93% interest) and a syndicate partner (with an approximate 7% interest). The total consideration offered is \$29 million, which includes the assumption of approximately \$17 million of loans made by CCF IV LP and its syndicate partner, subject to closing adjustments, as well as third-party bank debt. This transaction is expected to close in November 2017 with an effective date of November 1, 2017. Subject to closing, this transaction would result in CCF IV LP and its syndicate partner holding an equity interest in RBee with a cost base of \$5 million (CCF IV LP interest - \$4.6 million) and an interest-bearing, second-lien loan to RBee of approximately \$12 million (CCF IV LP interest - approximately \$11 million). Following this transaction, CCF IV LP and its syndicate partner will also hold a loan to Petrowest with approximately \$10 million of principal outstanding (CCF IV LP interest – approximately \$9 million; September 30, 2017 - \$25 million) which is in default and for which interest is not being accrued.

RBee has also made a bid to acquire Petrowest’s Rental division as a going concern for total consideration of \$3.6 million, which includes the assumption of \$2.2 million of CCF IV LP and its syndicate partner’s loans to Petrowest and which will be partially funded with third-party debt.

As at September 30, 2017, CCF IV LP’s aggregate loans to Petrowest had a par value of \$25.0 million and were included in investments, through profit or loss, at a fair value of \$24.0 million based on estimated liquidation value. As at November 7, 2017, the Corporation expects that CCF IV LP will recover, through its ownership interest in and loans to RBee and from other cash proceeds on the sale of Petrowest’s assets, the full amount of its outstanding loans to Petrowest.