
Condensed Consolidated Interim Financial Statements of

CROWN CAPITAL PARTNERS INC.

Three and nine months ended September 30, 2018 and
2017

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(expressed in thousands of Canadian dollars)

As at	September 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	\$ 8,488	\$ 41,106
Accounts receivable	4,169	3,048
Income taxes recoverable	296	42
Prepaid expenses and deposits (Note 11)	5,133	68
Investments (Note 4)	264,923	181,302
Share purchase loans	2,899	2,226
Office equipment	139	11
Equipment under development	1,222	-
Deferred financing costs	400	536
Deferred income taxes	507	711
	\$ 288,176	\$ 229,050
Liabilities and Shareholders' Equity		
Accounts payable and accrued liabilities	\$ 1,221	\$ 1,527
Distributions payable to non-controlling interest	2,772	2,015
Provision for deferred compensation (Note 6)	257	-
Provision for performance bonus	2,200	2,665
Credit facility (Note 7)	20,000	-
Convertible Debentures - liability component (Note 8)	18,141	-
Non-controlling interests (Note 9)	139,689	118,394
Total Liabilities	184,280	124,601
Equity		
Share capital (Note 5)	97,699	96,570
Convertible Debentures - equity component (Note 8)	483	-
Contributed surplus	1,246	2,931
Retained earnings	4,468	4,948
Total Equity	103,896	104,449
	\$ 288,176	\$ 229,050

Commitments (Note 11)

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,	
	2018	2017	2018	2017
Revenues				
Interest revenue	\$ 7,170	\$ 4,816	\$ 19,007	\$ 14,824
Fees and other income	208	141	2,043	3,747
Performance fee distributions	-	-	-	1,044
Net gain on investments				
Net realized gain (loss) from investments	-	(1,086)	222	2,200
Net change in unrealized gains (losses) on investments	542	1,731	986	(1,742)
	7,920	5,602	22,258	20,073
Expenses				
Salaries, management fees and benefits	535	360	2,053	1,725
Share-based compensation (Note 6)	333	485	1,329	1,301
General and administration	491	314	1,482	1,129
Performance bonus expense	163	214	519	1,612
Depreciation	14	1	19	4
Provision for credit losses	19	-	75	-
Finance costs (Note 7 and 8)	768	134	1,247	422
	2,323	1,508	6,724	6,193
Earnings before income taxes	5,597	4,094	15,534	13,880
Income taxes				
Current tax expense	513	506	1,616	1,710
Deferred tax	100	(19)	350	302
	613	487	1,966	2,012
Net income and comprehensive income	\$ 4,984	\$ 3,607	\$ 13,568	\$ 11,868
Net income and comprehensive income attributable to:				
Shareholders of the Corporation	\$ 1,808	\$ 1,113	\$ 4,679	\$ 4,624
Non-controlling interests (Note 9)	3,176	2,494	8,889	7,244
	\$ 4,984	\$ 3,607	\$ 13,568	\$ 11,868
Earnings per share attributable to shareholders:				
Basic	\$ 0.19	\$ 0.12	\$ 0.49	\$ 0.49
Diluted	\$ 0.19	\$ 0.11	\$ 0.48	\$ 0.47
Weighted average number of shares, basic	9,597,456	9,538,188	9,521,046	9,526,442
Weighted average number of shares, diluted	9,734,031	9,848,924	9,652,456	9,822,092

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, 2018 and 2017

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

	Number of shares	Share capital	Convertible Debentures - equity component	Contributed surplus	Retained earnings	Total Equity
Balance as at January 1, 2017	9,514,759	\$ 96,635	\$ -	\$ 1,900	\$ 2,984	\$ 101,519
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	-	4,624	4,624
Share-based compensation (Note 6)	-	-	-	1,301	-	1,301
Cash-settled share-based compensation (Note 6)	-	-	-	(280)	(25)	(305)
Issuance of common shares (Note 5)	38,274	372	-	(372)	-	-
Shares repurchased (Note 5)	(12,458)	(127)	-	-	5	(122)
Dividends declared (Note 5)	-	-	-	-	(3,525)	(3,525)
Balance as at September 30, 2017	9,540,575	\$ 96,880	\$ -	\$ 2,549	\$ 4,063	\$ 103,492
Balance as at January 1, 2018	9,510,017	\$ 96,570	\$ -	\$ 2,931	\$ 4,948	\$ 104,449
Impact of adoption of IFRS 9 (Note 3)	-	-	-	-	(888)	(888)
Adjusted balance as at January 1, 2018	9,510,017	96,570	-	2,931	4,060	103,561
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	-	4,679	4,679
Share-based compensation (Note 6)	-	-	-	1,234	-	1,234
Cash-settled share-based compensation (Note 6)	-	-	-	(546)	(9)	(555)
Issuance of common shares (Note 5)	237,318	2,373	-	(2,373)	-	-
Shares repurchased (Note 5)	(122,480)	(1,244)	-	-	28	(1,216)
Conversion feature of Convertible Debentures issued, net of tax effect (Note 8)	-	-	483	-	-	483
Dividends declared (Note 5)	-	-	-	-	(4,290)	(4,290)
Balance as at September 30, 2018	9,624,855	\$ 97,699	\$ 483	\$ 1,246	\$ 4,468	\$ 103,896

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,	2018	2017
Cash provided by (used in) operating activities		
Net income	\$ 13,568	\$ 11,868
Non-cash items:		
Net realized gain from investments	(222)	(2,200)
Net change in unrealized (gains) losses in fair value on investments	(986)	1,742
Finance fees earned on loans carried at amortized cost	2,205	-
Amortization component of interest revenue on loans carried at amortized cost	(1,050)	-
Provision for expected credit loss	75	-
Non-cash finance costs	231	212
Depreciation	19	4
Deferred income tax	350	302
Share-based compensation, net of cash settlements	774	996
Provision for performance bonus, net of payments	(465)	(695)
Net change in non-cash working capital (Note 10)	(1,566)	(489)
	12,933	11,740
Cash provided by (used in) investing activities		
Proceeds from repayment of debt securities	7,571	43,753
Proceeds from sale of equity securities	-	1,390
Purchase of investments	(93,319)	(80,475)
Share purchase loan advances, net of repayments	(673)	(2,239)
Purchase of office equipment	(147)	-
Purchase of equipment, under development	(1,222)	-
Net change in non-cash working capital (Note 10)	(5,018)	-
	(92,808)	(37,571)
Cash provided by (used in) financing activities		
Non-controlling interest contributions to Crown Partners Fund (Note 9)	27,061	40,966
Distributions paid by NCOF II to non-controlling interest	-	(6,121)
Distributions paid by Crown Partners Fund to non-controlling interest	(13,001)	(8,125)
Credit facility advances, net of repayments (Note 7)	20,000	-
Issuance of Convertible Debentures, net of issuance costs (Note 8)	18,703	-
Shares repurchased (Note 5)	(1,216)	(122)
Dividends (Note 5)	(4,290)	(3,525)
Net change in non-cash working capital (Note 10)	-	(789)
	47,257	22,284
Decrease in cash and cash equivalents	(32,618)	(3,547)
Cash and cash equivalents, beginning of period	41,106	19,262
Cash and cash equivalents, end of period	\$ 8,488	\$ 15,715
Supplemental cash flow information:		
Interest received in the period	\$ 18,146	\$ 14,999
Income taxes paid in the period	\$ 1,916	\$ 2,453

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, 2018 and 2017

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

1. Reporting entity:

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

- A 100% interest (September 30, 2017 – 100%) in Crown Capital Funding Corporation (“CCFC”);
- Through CCFC, a 100% interest (September 30, 2017 – 100%) in Crown Capital Private Credit Fund, LP (“Crown Private Credit Fund”);
- Through CCFC, an effective interest of 37.1% (July 1, 2017 to June 30, 2018 - 36.5%; prior to July 1, 2017 – 35.0%) in Crown Capital Partner Funding, LP (“Crown Partners Fund”), previously named Crown Capital Fund IV, LP;
- A 100% interest (September 30, 2017 – 100%) in Crown Capital Private Credit Management Inc. (“CCPC MI”), the general partner of Crown Private Credit Fund;
- A 100% interest (September 30, 2017 – 100%) in Crown Capital LP Partner Funding Inc. (“CCPF MI”) previously named Crown Capital Fund IV Management Inc., the general partner of Crown Partners Fund and Crown Capital Fund IV Investment, LP (“CCF IV Investment”);
- Prior to its dissolution on June 30, 2017, a 69.75% interest in Norrep Credit Opportunities Fund II, LP (“NCOF II”);
- A 100% interest (September 30, 2017 – 100%) in Crown Capital Fund III Management Inc. (“CCF III”), the general partner and manager of Norrep Credit Opportunities Fund, LP and, prior to their dissolution on June 30, 2017, NCOF II and Norrep Credit Opportunities Fund II (Parallel), LP;
- Effective June 8, 2018 upon its formation, a 100% interest (September 30, 2017 – nil) in Crown Capital Power Limited Partnership (“Crown Power Fund”); and
- Effective June 8, 2018 upon its incorporation, a 100% interest (September 30, 2017 – nil) in 10824356 Canada Inc., the general partner of Crown Power Fund.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

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

2. Basis of preparation:

(a) Statement of compliance:

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

These condensed consolidated interim financial statements were authorized for issue by the Corporation’s Board of Directors on November 6, 2018.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgments:

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

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

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and nine months ended September 30, 2018 and 2017

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

3. Significant accounting policies:

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

(a) New policy implemented in period:

Compound Financial Instruments:

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

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

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

(b) Current period changes in accounting policies:

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

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

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

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

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

3. Significant accounting policies (continued):

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

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

Classification and measurement

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

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

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

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

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Notes to the condensed consolidated interim financial statements (unaudited)

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

3. Significant accounting policies (continued):

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

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

As at January 1, 2018	
Investments at amortized cost:	
Amortized cost under IFRS 9	\$114,498
Fair value under IAS 39	(116,499)
Allowance for expected credit loss under IFRS 9	(103)
Difference in carrying value of investments at amortized cost	(2,104)
Non-controlling interest adjustment (Note 11)	896
Total difference in carrying values before tax impact	(1,208)
Tax impact on difference in carrying values (26.5% effective tax rate)	320
Impact of adoption of IFRS 9 to retained earnings	\$ (888)

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

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

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Notes to the condensed consolidated interim financial statements (unaudited)

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

3. Significant accounting policies (continued):

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

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

Impairment of financial assets

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

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

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

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

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

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

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

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

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

3. Significant accounting policies (continued):

(c) New standards not yet adopted:

IFRS 16 “Leases” (“IFRS 16”):

In January 2016, the International Accounting Standards Board issued IFRS 16, which replaced IAS 17: *Leases*. For leases in the scope of IFRS 16, a single recognition and measurement model would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019. The Corporation is in the process of assessing the detailed impacts of this new standard. Under IFRS 16, the Corporation’s office lease (see Note 11) will be recorded on the statement of financial position.

4. Financial instruments:

(a) Investments

As at	September 30, 2018	December 31, 2017
Investments at FVTPL:		
Canadian debt securities at FVTPL	\$ 68,777	\$ 174,519
Canadian equity securities	5,428	4,202
Other investments	4,590	2,581
Total Investments at FVTPL	\$ 78,795	\$ 181,302
Canadian debt securities at amortized cost, net of allowance for credit loss	186,128	-
Total Investments	\$ 264,923	\$ 181,302

(b) Canadian debt securities

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

Contractual maturity	September 30, 2018	December 31, 2017
On demand	\$ 17,398	\$ 25,000
0 – 12 months	-	810
1 – 3 years	50,523	6,480
3 – 5 years	146,407	110,229
5 years or more	40,577	32,000
Total debt securities	\$ 254,905	\$ 174,519

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, 2018 and 2017

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

4. Financial instruments (continued):

(b) Canadian debt securities (continued):

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

Interest revenue calculated using the effective interest rate method for debt securities carried at amortized cost totaled \$5,224 and \$13,679 for the three and nine months ended September 30, 2018.

(c) Canadian equities

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

(d) Provision for credit losses

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

	Allowance for credit losses
Balance as at January 1, 2018	\$ -
Impact of adoption of IFRS 9	103
Adjusted balance as at January 1, 2018	103
Provision for credit losses in the period	75
Balance as at September 30, 2018	\$ 178

As at September 30, 2018, the total gross carrying values of debt instruments at amortized cost classified as Stage One, Stage Two and Stage Three were \$186,306, \$nil and \$nil, respectively. The allowance for credit losses associated with these Stage One, Stage Two and Stage Three investments as at September 30, 2018 was \$178, \$nil and \$nil, respectively.

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Notes to the condensed consolidated interim financial statements (unaudited)

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4. Financial instruments (continued):

(e) Fair values:

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

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

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

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

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

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

4. Financial instruments (continued):

(e) Fair values (continued):

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

	September 30, 2018				
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total fair value	Carrying value
Canadian debt securities at FVTPL	\$ -	\$ -	\$ 68,777	\$ 68,777	\$ 68,777
Canadian equity securities	489	3,463	1,476	5,428	5,428
Other investments	-	-	4,590	4,590	4,590
Total Investments at FVTPL	489	3,463	74,843	78,795	78,795
Canadian debt securities at amortized cost, net of allowance for credit loss	-	-	189,238	189,238	186,128
Total Investments	\$ 489	\$ 3,463	\$ 264,081	\$ 268,033	\$ 264,923

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

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

4. Financial instruments (continued):

(e) Fair values (continued):

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

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

Discount rates are subject to adjustment based on both management's current assessment of market conditions and the economic performance of individual investments. At September 30, 2018, discount rates used range from 10.5% to 19.4% (December 31, 2017 – 10.7% to 17.9%).

The most significant input into the calculation of fair value of Level 3 debt investments is the discount rate applied to expected future cash flows. If the discount rate increased (decreased) by 100 bps, the fair value of Level 3 investments at September 30, 2018 would decrease by \$6,315 or increase by \$6,626, respectively.

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

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

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4. Financial instruments (continued):

(e) Fair values (continued):

September 30, 2018	
	Level 3 securities at FVTPL
Beginning balance, January 1, 2018	\$ 62,077
Purchases	10,895
Net change in unrealized gains	1,871
Balance, September 30, 2018	\$ 74,843

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

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

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5. Share capital:

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

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

During the three and nine months ended September 30, 2018, the Corporation purchased and cancelled a total of 59,422 and 122,480 shares, respectively (September 30, 2017 – 900 and 12,458 shares, respectively), for total consideration of \$603 and \$1,216, respectively (September 30, 2017 - \$9 and \$122, respectively). Total shares purchased and cancelled under the current NCIB up to September 30, 2018 was 72,022.

During the three and nine months ended September 30, 2018, the Corporation issued 222,905 and 237,318 shares, respectively, as vested share-based compensation. 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 (see Note 7).

During the nine months ended September 30, 2018, the Corporation paid dividends of \$0.45 per share (September 30, 2017 - \$0.37 per share) for a total payment of \$4,290 (2017 - \$3,525).

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6. Share-based compensation:

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

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

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

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, 2018, 439,576 (December 31, 2017 - 293,051) stock options had vested but had not been exercised and an additional 31,818 (December 31, 2017 - 178,343) stock options which had not vested remained outstanding.

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6. Share-based compensation (continued):

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

For the nine months ended September 30, 2018						
	Number outstanding at January 1, 2018	Issued in the period	Vested or exercised	Number outstanding at September 30, 2018 Forfeited		Expensed in the period
TRSU ¹	200,725	6,289	(207,014)	-	-	\$ 390
PSU ²	38,426	64,219	(48,619)	-	54,026	440
RSU ²	80,210	34,645	(31,080)	-	83,775	312
RRSU	-	5,726	(5,726)	-	-	55
DDSU	-	25,062	-	-	25,062	95
Total Share Units	319,361	135,941	(292,439)	-	162,863	1,292
Stock options	471,394	-	-	-	471,394	37
Total	790,755	135,941	(292,439)	-	634,257	\$ 1,329

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

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

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6. Share-based compensation (continued):

	For the nine months ended September 30, 2017					Expensed in the period
	Number outstanding at January 1, 2017	Issued in the period	Vested or exercised	Number outstanding at September 30, 2017	Forfeited	
TRSU ^s ¹	190,976	7,095	-	-	198,071	\$ 477
PSU ^s ²	46,410	42,870	(51,361)	-	37,919	449
RSU ^s ²	51,677	37,915	(10,480)	-	79,112	229
RRSU ^s	-	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

¹ The TRSU^s issued in the period were units issued in lieu of dividends on the underlying securities.

² The PSU^s and RSU^s issued in the period were new awards and units issued in lieu of dividends on the underlying securities.

7. Credit facility:

The Corporation has a \$35,000 senior secured revolving credit facility (the "Credit Facility") to fund investments in mid-market corporations. The Credit Facility provides financing at a variable interest rate based on Bankers Acceptance rate plus 375 bps to 425 bps and has a customary set of covenants. The Credit Facility matures on December 30, 2019 and is subject to a one year extension annually on each December 30. As of September 30, 2018, \$20,000 (December 31, 2017, \$nil) has been drawn on the Credit Facility.

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8. Convertible Debentures:

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

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

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8. Convertible Debentures (continued):

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

	Liability Component	Equity Component
Balance, December 31, 2017	\$ -	\$ -
Issuance of Convertible Debentures	19,297	703
Issuance costs	(1,251)	(46)
Deferred income tax liability	-	(174)
Effective interest on Convertible Debentures	95	-
Balance, September 30, 2018	\$ 18,141	\$ 483

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9. Non-controlling interests (NCI):

As at	September 30, 2018	
	Crown Partners Fund	Total
NCI percentage	62.9% ¹	
Beginning balance, January 1, 2018	\$ 118,394	\$ 118,394
Impact of adoption of IFRS 9 (Note 3)	(896)	(896)
Adjusted balance, January 1, 2018	117,498	117,498
Net income and comprehensive income	8,889	8,889
Contributions	27,061	27,061
Distributions	(13,759)	(13,759)
Balance, September 30, 2018	\$ 139,689	\$ 139,689

As at	September 30, 2017		
	NCOF II	Crown Partners Fund	Total
NCI percentage	30.25%	63.5% ¹	
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 Crown Partners Fund decreased from 65% to 63.5% effective July 1, 2017 and decreased from 63.5% to 62.9% effective July 1, 2018.

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10. Net change in non-cash working capital:

Nine months ended September 30,	2018	2017
Accounts receivable	\$ (1,121)	\$ 69
Prepaid expenses	(5,065)	(14)
Accounts payable and accrued liabilities	(144)	(1,051)
Deferred interest revenue	-	461
Income taxes recoverable	(254)	(743)
Total	\$ (6,584)	\$ (1,278)
Net change attributable to operating activities	(1,566)	(489)
Net change attributable to investing activities	(5,018)	-
Net change attributable to financing activities	-	(789)

11. Commitments:

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

	1 Year	2-3 Years	4-5 Years	Total
Operating lease	\$ 131	\$ 262	\$ 218	\$ 611
Total	\$ 131	\$ 262	\$ 218	\$ 611

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

The Corporation, through Crown Private Credit Fund and Crown Partners Fund, had unfunded commitments to provide loan advances of \$3,681 and \$5,000, respectively, as at September 30, 2018, of which \$3,145 was attributable to non-controlling interests.

As at September 30, 2018 the Corporation, through Crown Power Fund, had committed to contracts valued at \$8,228 in relation to the construction of power generation assets, of which \$6,398 was funded, including \$5,018 of prepaid expenses and deposits and \$1,222 in equipment under development, and \$1,830 was unfunded.

The Corporation, through CCFC, has an aggregate commitment to provide funding to Crown Partners Fund and CCF IV Investment of \$29,037, as at September 30, 2018.