
Condensed Consolidated Interim Financial Statements of

CROWN CAPITAL PARTNERS INC.

Three and six months ended June 30, 2017 and 2016

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Financial Position (unaudited)

(expressed in thousands of Canadian dollars)

As at	June 30, 2017	December 31, 2016
Assets		
Current Assets		
Cash and cash equivalents	\$ 23,465	\$ 19,262
Accounts receivable	717	1,747
Prepaid expenses	35	71
	24,217	21,080
Investments, at fair value through profit or loss (Note 4)	194,096	158,951
Executive share purchase loans (Note 8)	2,254	-
Equipment	13	16
Deferred financing costs (Note 9)	647	789
Deferred income taxes	1,218	1,539
	\$ 222,445	\$ 182,375
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 1,111	\$ 2,010
Deferred interest revenue	1,729	-
Distributions payable to non-controlling interest	1,793	1,116
Provision for performance bonus (Note 5)	3,291	-
Income taxes payable	1,040	909
	8,964	4,035
Provision for performance bonus (Note 5)	1,017	2,910
Non-controlling interests (Note 10)	109,088	73,911
Total Liabilities	119,069	80,856
Equity		
Share capital (Note 6)	96,651	96,635
Contributed surplus	2,515	1,900
Retained earnings	4,210	2,984
Total Equity	103,376	101,519
	\$ 222,445	\$ 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 June 30,		For the six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Fees and other income	\$ 3,080	\$ 814	\$ 3,606	\$ 1,368
Interest revenue	5,623	2,568	10,008	4,953
Performance fee distributions (Note 5)	1,044	-	1,044	-
Net gain on investments				
Net realized gain on sale of investments	2,733	-	3,286	1,741
Net change in unrealized gains in fair value of investments	(4,765)	1,602	(3,473)	2,013
	7,715	4,984	14,471	10,075
Expenses				
Salaries, management fees and benefits	885	341	1,365	923
Share-based compensation (Note 7)	402	473	816	848
General and administration	398	406	815	763
Performance bonus expense	1,152	185	1,398	574
Depreciation	2	1	3	2
Finance costs (Note 9)	141	-	288	-
	2,980	1,406	4,685	3,110
Earnings before income taxes	4,735	3,578	9,786	6,965
Income taxes				
Current tax expense	495	711	1,204	1,461
Deferred tax	273	35	321	17
	768	746	1,525	1,478
Net income and comprehensive income	\$ 3,967	\$ 2,832	\$ 8,261	\$ 5,487
Net income and comprehensive income attributable to:				
Shareholders of the Corporation	\$ 1,767	\$ 1,749	\$ 3,511	\$ 3,387
Non-controlling interests (Note 10)	2,200	1,083	4,750	2,100
	\$ 3,967	\$ 2,832	\$ 8,261	\$ 5,487
Earnings per share attributable to shareholders:				
Basic	\$ 0.19	\$ 0.18	\$ 0.37	\$ 0.36
Diluted	\$ 0.18	\$ 0.18	\$ 0.36	\$ 0.35
Weighted average number of shares, basic	9,519,598	9,492,045	9,520,471	9,492,699
Weighted average number of shares, diluted	9,853,463	9,744,369	9,846,354	9,744,373

See accompanying notes to consolidated financial statements.

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Changes in Equity (unaudited)

For the six months ended June 30, 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	-	-	-	3,387	3,387
Share-based compensation (Note 7)	-	-	848	-	848
Issuance of common shares (Note 6)	11,816	104	(104)	-	-
Shares repurchased (Note 6)	(4,700)	(48)	-	8	(40)
Dividends declared (Note 6)	-	-	-	(2,088)	(2,088)
Balance as at June 30, 2016	9,495,210	\$ 96,442	\$ 1,580	\$ 3,345	\$ 101,367
Balance as at January 1, 2017	9,514,759	\$ 96,635	\$ 1,900	\$ 2,984	\$ 101,519
Net income and comprehensive income attributable to shareholders of the Corporation	-	-	-	3,511	3,511
Share-based compensation (Note 7)	-	-	816	-	816
Cash-settled share-based compensation (Note 7)	-	-	(67)	(4)	(71)
Issuance of common shares (Note 6)	14,231	134	(134)	-	-
Shares repurchased (Note 6)	(11,558)	(118)	-	4	(114)
Dividends declared (Note 6)	-	-	-	(2,285)	(2,285)
Balance as at June 30, 2017	9,517,432	\$ 96,651	\$ 2,515	\$ 4,210	\$ 103,376

See accompanying notes to consolidated financial statements.

CROWN CAPITAL PARTNERS INC.

Condensed Consolidated Interim Statements of Cash Flows (unaudited)

(expressed in thousands of Canadian dollars)

For the six months ended June 30,	2017	2016
Cash provided by (used in) operating activities		
Net income and comprehensive income	\$ 8,261	\$ 5,487
Non-cash items:		
Net realized (gain) loss on sale of investments	(3,286)	(1,741)
Net change in unrealized gains in fair value of investments	3,473	(2,013)
Depreciation	3	2
Deferred income tax	321	17
Share-based compensation	745	848
Provision for performance bonus (Note 5)	1,398	574
Amortization of deferred finance costs (Note 9)	141	-
Net change in non-cash working capital (Note 11)	2,816	(2,373)
	13,872	801
Cash provided by (used in) investing activities		
Proceeds from repayment of debt securities	45,142	-
Proceeds from sale of equity securities	-	4,082
Purchase of investments	(80,475)	(15,375)
Purchase of property, plant & equipment	-	(10)
	(35,333)	(11,303)
Cash provided by (used in) financing activities		
Non-controlling interest contributions to CCF IV LP (Note 10)	41,448	7,500
Distributions paid by NCOF II to non-controlling interest	(6,120)	(1,542)
Distributions paid by CCF IV to non-controlling interest	(4,222)	(630)
Executive share purchase loan advances	(2,254)	-
Shares repurchased (Note 6)	(114)	(40)
Dividends (Note 6)	(2,285)	(2,088)
Net change in non-cash working capital (Note 11)	(789)	-
	25,664	3,200
Increase in cash and cash equivalents	4,203	(7,302)
Cash and cash equivalents, beginning of period	19,262	43,641
Cash and cash equivalents, end of period	\$ 23,465	\$ 36,339
Supplemental cash flow information:		
Interest received in the period	\$ 11,106	\$ 4,921
Income taxes paid in the period	\$ 1,073	\$ 855

See accompanying notes to consolidated financial statements.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the three and six months ended June 30, 2017 and 2016

(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 six months ended June 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, NCOF II and Norrep Credit Opportunities Fund II (Parallel), LP (“NCOF II (Parallel)”) and manages these investment funds. NCOF II and NCOF II (Parallel) were both dissolved 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. Each unit of CCF IV LP includes a commitment to invest up to \$1,000 in CCF IV LP. See Note 12 Subsequent events for the Corporation’s increased commitment subsequent to June 30, 2017.

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 six months ended June 30, 2017 and 2016

(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 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 August 8, 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 six months ended June 30, 2017 and 2016

(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, 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 with early adoption permitted. 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 the third quarter 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, with early adoption permitted. IFRS 15 will be applied effective January 1, 2018 and the Corporation does not expect any material changes to its financial reporting.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 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	June 30, 2017		December 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Canadian equity securities	\$ 4,371	\$ 5,644	\$ 2,685	\$ 4,485
Canadian debt securities	188,907	188,452	153,248	154,466
Total Investments	\$ 193,278	\$ 194,096	\$ 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 six months ended June 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 June 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.

June 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	\$ 2,008	\$ -	\$ -	\$	2,008
Canadian warrants	-	2,160	1,476		3,636
Canadian debt securities	-	-	188,452		188,452
Total Investments	\$ 2,008	\$ 2,160	\$ 189,928	\$	194,096

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 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 June 30, 2017 and December 31, 2016 comprise private investments in Canadian debt and Canadian warrants. Each loan is valued using the discounted present value of expected cash flows arising from these debt instruments. 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 six months ended June 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:

June 30, 2017	
	Level 3 Securities
Beginning balance, January 1, 2017	\$ 154,466
Purchases	79,334
Repayment	(43,754)
Realized gains	2,826
Net change in unrealized gains	(2,944)
Balance, June 30, 2017	\$ 189,928

June 30, 2016	
	Level 3 Securities
Beginning balance, January 1, 2016	\$ 79,737
Purchases	15,000
Net change in unrealized gains	2,294
Balance, June 30, 2016	\$ 97,031

The most significant input into the calculation of fair value of Level 3 debt investments is the discount rate applied to expected future cash flows. If the discount rate increased (decreased) by 100 bps, the fair value of Level 3 investments at June 30, 2017 would decrease by \$5,193 or increase by \$5,462, respectively.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 30, 2017 and 2016

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

4. Fair value measurement (continued):

(c) Canadian debt instruments

As at June 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.

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 three months ended June 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 six months ended June 30, 2017 and 2016

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

5. Provision for performance bonus (continued):

As at June 30, 2017, the Corporation had accrued a provision for performance bonus payable of \$4,308 (December 31, 2016 - \$2,910), including \$2,472 (December 31, 2016 - \$2,349) relating to performance fees received from NCOF II, \$819 (December 31, 2016 - \$Nil) relating to performance fees received from NCOF II (Parallel) and \$1,017 (December 31, 2016 - \$561) relating to performance fees accrued to date by CCF IV LP. Of the provision relating to NCOF II and NCOF II (Parallel), \$2,307 was paid to APBP participants in July 2017 and \$984 was 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 six months ended June 30, 2017, the Corporation purchased and cancelled a total of 6,158 and 11,558 shares for total consideration of \$62 and \$114, respectively (average cost \$10.04 and \$9.77 per share, respectively), (for the three and six months ended June 30, 2016 - 4,700 shares for \$40). The average book value of the shares repurchased in the six months ended June 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 \$4 (June 30, 2016 - \$8) and was recorded as an increase to retained earnings. Total shares purchased and cancelled under the current NCIB up to June 30, 2017 was 4,158.

During the three and six months ended June 30, 2017, the Corporation issued nil and 14,231 shares, respectively, as vested share-based compensation. During the three and six months ended June 30, 2016, the Corporation issued 5,908 and 11,816 shares, respectively, as vested share-based compensation (see Note 7). The Corporation, for the six months ended June 30, 2017, reclassified \$134 (June 30, 2016 - \$104) from contributed surplus to share capital for these shares.

During the six months ended June 30, 2017, the Corporation paid dividends of \$0.24 per share (June 30, 2016 - \$0.22 per share) for a total payment of \$2,285 (2016 - \$2,088).

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 30, 2017 and 2016

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

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 were issued only in 2015 and 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 June 30, 2017, 146,524 (December 31, 2016 - 146,524) stock options had vested but had not been exercised and an additional 324,870 (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 six months ended June 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 69,760 and 18,210 Share Units during the six months ended June 30, 2017 and 2016, respectively, and 21,350 and 11,816 Share Units vested, respectively. Of the Share Units that vested in the six months ended June 30, 2017 and 2016, 7,119 and nil Share Units, respectively, were cash-settled for \$71 and \$nil, respectively, to pay applicable withholding taxes, and 14,231 and 11,816, respectively, common shares were issued.

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

For the six months ended June 30, 2017						
	Number outstanding at January 1, 2017	Issued in period	Vested or exercised	Forfeited	Number outstanding at June 30, 2017	Expensed in period (000's)
TRSU ¹	190,976	4,538	-	-	195,514	\$ 312
PSU ²	46,410	42,382	(16,235)	-	72,557	299
RSU ²	51,677	21,929	(5,115)	-	68,491	136
RRSU ²	-	-	-	-	-	-
Total Share Units ³	289,063	68,849	(21,350)	-	336,562	747
Stock options ⁴	446,394	31,818	-	(6,818)	471,394	69
Total	735,457	100,667	(21,350)	(6,818)	807,956	\$ 816

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.

³ 21,350 Share Units vested in the period. 7,119 Share Units were cash-settled and 14,231 common shares were issued.

⁴ 146,524 stock options are exercisable as of June 30, 2017 at a weighted average exercise price of \$11.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 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 six months ended June 30, 2016						
	Number outstanding at January 1, 2016	Issued in period	Vested or exercised	Forfeited	Number outstanding at June 30, 2016	Expensed in period (000's)
TRSU ¹	181,818	4,710	-	-	186,528	\$ 290
PSU ²	36,528	941	-	-	37,469	226
RSU ²	29,168	743	-	-	29,911	76
RRSUs	-	11,816	(11,816)	-	-	104
Total Share Units	247,514	18,210	(11,816)	-	253,908	696
Stock options	491,849	-		(31,818)	460,031	152
Total	739,363	18,210	(11,816)	(31,818)	713,939	\$ 848

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.

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 30, 2017 and 2016

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

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.

In the period ended June 30, 2017, the Corporation advanced \$2,250 of new loans under the Share Purchase Plan. As at June 30, 2017, \$2,254 of loans were outstanding (December 31, 2016 - \$nil), including accrued interest of \$4. The loans under the Share Purchase Plan bear interest at prime (2.7% as at June 30, 2017), have a seven-year term (maturity date: June 3, 2024) and are personally guaranteed by Participants. The shares are pledged as security for the loans and had a fair value of \$2,293 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 in three years and is subject to extension annually. As of June 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 six months ended June 30, 2017, \$141 and \$288, respectively, (June 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 six months ended June 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	June 30, 2017		
	NCOF II	CCF IV LP	Total
NCI percentage	30.25%	65.0%	
Beginning balance, January 1, 2017	\$ 5,616	\$ 68,295	\$ 73,911
Net income and comprehensive income	350	4,400	4,750
Contributions	-	41,448	41,448
Distributions	(5,966)	(5,055)	(11,021)
Balance, June 30, 2017	-	109,088	109,088

As at	June 30, 2016		
	NCOF II	CCF IV LP	Total
NCI percentage	30.25%	50.0%	
Beginning balance, January 1, 2016	\$ 6,407	\$ 18,164	\$ 24,571
Net income and comprehensive income	761	1,339	2,100
Contributions	-	7,500	7,500
Distributions	(1,541)	(833)	(2,374)
Balance, June 30, 2016	\$ 5,627	\$ 26,170	\$ 31,797

CROWN CAPITAL PARTNERS INC.

Notes to the condensed consolidated interim financial statements (unaudited)

As at and for the six months ended June 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:

Six months ended June 30,	2017	2016
Accounts receivable	\$ 1,030	\$ (431)
Prepaid expenses	36	31
Accounts payable and accrued liabilities	(899)	(143)
Deferred interest revenue	1,729	(1,740)
Income tax payable	131	(90)
Total	\$ 2,027	\$ (2,373)
Net change attributable to operating activities	2,816	(2,373)
Net change attributable to financing activities	(789)	-

12. Subsequent events:

On July 13, 2017, CCF IV LP completed a subsequent closing with subscriptions for an additional 50,000 limited partnership units at \$1,000 per unit, bringing the total capital committed to CCF IV LP to \$225.0 million. The Corporation, through CCFC, subscribed for an additional 17,500 partnership units, which increased its commitment to CCF IV LP to \$78.8 million (\$61.3 million as of June 30, 2017). This resulted in CCFC holding 78,750 units and a 35% interest in CCF IV LP effective July 1, 2017 (June 30, 2017 – 35%). Of this commitment, \$57.8 million had been contributed as of June 30, 2017.

On July 13, 2017, the Corporation, through CCFC, also committed to invest up to \$3.6 million in Crown Capital Fund IV Investment, LP (“CCF IV Investment”), representing an interest in CCF IV Investment of approximately 22.5% (nil as of June 30, 2017). 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 (June 30, 2017 – 35.0%)