Flow Capital Corp. (formerly LOGiQ Asset Management Inc.)

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("**MD&A**") of the financial condition and results of Flow Capital Corp. ("**Flow Capital**", the "**Company**", **"our**" or "**we**") is for the three months and year ended December 31, 2018. The information in this MD&A is current as of February 11, 2019 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2018 and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2017.

The Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2018 have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board ("**IASB**") and are recorded in Canadian dollars. Certain dollar amounts in this MD&A have been rounded to the nearest thousands of dollars.

FORWARD-LOOKING INFORMATION

This MD&A and documents incorporated by reference contain certain "forward-looking information" within the meaning of applicable Canadian securities legislation and may also contain statements that may constitute "forward-looking statements" within the meaning of the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such forward-looking information and forward-looking statements are not representative of historical facts or information or current condition, but instead represent only the Company's beliefs regarding future events, plans or objectives, many of which, by their nature, are inherently uncertain and outside of the Company's control. Generally, such forward-looking information or forward-looking statements can be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or may contain statements that certain actions, events or results "may", "could", "would", "might" or "will be taken", "will continue", "will occur" or "will be achieved". The forward-looking information contained herein may include, but is not limited to, information with respect to: prospective financial performance; including the Company's opinion regarding the current and future performance of its portfolio, expenses and operations; anticipated cash needs and need for additional financing; anticipated funding sources; future growth plans; royalty acquisition targets and proposed or completed royalty transactions; estimated operating costs; estimated market drivers and demand; business prospects and strategy; anticipated trends and challenges in the Company's business and the markets in which it operates; the Company's ability to pay dividends in the future and the amount and timing of those dividends; the Company's ability to successfully manage its joint venture relationships; and the Company's financial position. By identifying such information and statements in this manner, the Company is alerting the reader that such information and statements are subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance, or achievements of the Company to be materially different from those expressed or implied by such information and statements.

An investment in securities of the Company is speculative and subject to a number of risks including, without limitation, risks relating to: the need for additional financing; the Company's ability to pay dividends in the future and the timing and amount of those dividends; the relative speculative and illiquid nature of an investment in the Company; the volatility of the Company's share price; the Company's limited operating history; the Company's ability to generate sufficient revenues; the Company's ability to manage future growth; the limited diversification in the Company's existing investments and the concentration of a significant amount of the Company's invested capital in a small number of investments; the Company's ability to negotiate additional royalty purchases from new investee companies; the Company's dependence on the operations, assets and financial health of its investee companies; the Company's limited ability to exercise control or direction over investee companies; potential defaults by investee companies and the unsecured nature of the Company's investments; the Company's ability to enforce on any default by an investee company; competition with other investment entities; tax matters, including the potential impact of the Foreign Account Tax Compliance Act on the Company; the potential impact of the Company being classified as a Passive Foreign Investment Company ("PFIC"); reliance on key personnel; dilution of shareholders' interest through future financings; changes to the Company's accounting policies and methods; and general economic and political conditions; as well as the risks discussed in the joint management information circular of the Company dated May 2, 2018 and the risks discussed herein. Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in the forward-looking information and forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended.

In connection with the forward-looking information and forward-looking statements contained in this MD&A, the Company has made certain assumptions. Assumptions about the performance of the Canadian and U.S. economies over the next 24 months and how that will affect the Company's business and its ability to identify and close new opportunities with new investees are material factors that the Company considered when setting its strategic priorities and objectives, and its outlook for its business.

Key assumptions include, but are not limited to: assumptions that the Canadian and U.S. economies relevant to the Company's investment focus will remain relatively stable over the next 12 to 24 months; that interest rates will not increase dramatically over the next 12 to 24 months; that the Company's existing investees will continue to make royalty payments to the Company as and when required; that the businesses of the Company's investees will not experience material negative results; that the Company will continue to grow its portfolio in a manner similar to what has already been established; that tax rates and tax laws will not change significantly in Canada and the U.S.; that more small to medium private and public companies will continue to require access to alternative sources of capital; and that the Company will have the ability to raise required equity and/or debt financing on acceptable terms. The Company has also assumed that access to the capital markets will remain relatively stable, that the capital markets will perform with normal levels of volatility and that the Canadian dollar will not have a high amount of volatility relative to the U.S. dollar. In determining expectations for economic growth, the Company primarily considers historical economic data provided by the Canadian and U.S. governments and their agencies. Although the Company believes that the assumptions and factors used in preparing, and the expectations contained in, the forward-looking information and statements are reasonable, undue reliance should not be placed on such information and statements, and no assurance or guarantee can be given that such forward-looking information and statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information and statements.

The forward-looking information and forward-looking statements contained in this MD&A are made as of the date of this MD&A, and the Company does not undertake to update any forward-looking information and/or forward-looking statements that are contained or referenced herein, except in accordance with applicable securities laws. All subsequent written and oral forward- looking-information and statements attributable to the Company or persons acting on its behalf is expressly qualified in its entirety by this notice.

NON-IFRS MEASURES

This MD&A also refers to certain key performance indicators, including EBITDA, Adjusted EBITDA, Free Cash Flow, weighted average royalty rate and cash returned from royalty payments and royalty buyouts to assist in assessing the Company's financial performance. EBITDA, Adjusted EBITDA, Free Cash Flow, weighted average royalty rate and cash returned from royalty payments and royalty buyouts (the "**Non-IFRS Measures**") are financial measures used in this MD&A that are not standard measures under IFRS. The Company's method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Company's Non-IFRS measures may not be comparable to similar measures presented by other issuers. See section "**Definition of Non-IFRS Measures**" for an explanation on how they are calculated. These Non-IFRS measures should only be interpreted in conjunction with the most recently audited consolidated financial statements for the year ended December 31, 2018, which are available on SEDAR at www.sedar.com.

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GENERAL DESCRIPTION OF THE BUSINESS

Flow Capital operates two divisions: an investment operation providing revenue-linked capital and advisory services to emerging growth businesses in North America, and an institutional sales platform, providing pension funds, charities and endowment clients with access to leading institutional money managers from around the world.

The investment operation uses the Flow Capital name and brand in the marketplace, and makes revenue-linked and cashflow-oriented investments in North American emerging growth businesses (individually, an “**investee**” and collectively the “**investees**”), seeking to meet a huge need in the financing market for profitable or near-profitable, small and medium sized enterprises looking to grow their business without the dilution of equity or restrictive covenants of secured debt. Flow Capital also provides a range of advisory services to assist investees in fulfilling their growth objectives.

Flow Capital’s investment division creates shareholder value in three ways. Firstly, by providing growth capital to private and public businesses, typically in exchange for long-term royalties on those companies’ revenues, but in some cases in exchange for interest and principal payments. Flow’s portfolio of diverse royalty contracts creates the potential for a stable and growing stream of long-term, recurring revenues. A secondary source of shareholder value derives from royalty buyouts or buydowns. Flow Capital’s royalties typically (but do not exclusively) stipulate that once an investee has returned one-times (1X) the aggregate investment amount, an investee may exit its royalty contract for a price that is at least equivalent to two-times (2X) Flow Capital’s aggregate investment amount. Given that investees control the timing of royalty buyouts, precisely forecasting buyouts is not possible for Flow Capital; however, when buyouts do occur, they can realize material cash-on-cash returns for the Company. Flow’s portfolio of diverse royalty contracts provides the potential for numerous royalty buyouts, which could in the future provide cash-on-cash returns in excess of the portfolio’s investment cost and recurring revenues from the portfolio. A third source of value from Flow Capital’s investment business is returns from equity and warrants. While Flow Capital does not purchase the equity of its investees, the Company has from time-to-time earned equity or warrants in exchange for providing an investment or advisory services to investees, or in other cases, such as when an existing royalty is converted into equity. Precisely forecasting the future value of equity and warrant positions is not possible for Flow Capital; however, it is possible that these positions will create shareholder value over the long term, in excess of cash flows from royalty contracts and royalty buyouts or buydowns.

Flow Capital’s second division, its institutional advisory sales platform, is operated under the name of LOGiQ Global Partners. Global Partners has relationships with just under thirty third-party investment managers, which allows it to provide pensions and endowments with exposure to highly-skilled investment managers in every asset class and style, including the burgeoning market for alternative investment vehicles. LOGiQ Global Partners creates shareholder value for Flow Capital’s shareholders through its sales-related fee earning contracts, which are linked to the fees earned by third-party managers for whom it secures investment commitments from pensions and endowments.

In summary, across its two operating divisions, Flow Capital creates shareholder value in four distinct ways:
i) Stable, recurring revenues from a diverse portfolio of royalties in North American emerging growth companies,
ii) Royalty buyouts or buydowns,
iii) Realized returns from equity and warrants, and
iv) Stable, recurring revenues from a diverse portfolio of sales-related fee earning contracts with third-party managers.

RESULTS OF OPERATIONS

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Revenues	$ (991,440)	$ (2,870,932)	$ 4,594,086	$ (9,603,221)
Profit/(Loss) for the period	(2,458,672)	(3,339,863)	3,030,163	(11,351,423)
EBITDA/EBITDA (Loss)(1)	(2,192,686)	(4,053,740)	5,315,881	(13,525,112)
Adjusted EBITDA(1)	411,364	65,313	1,873,021	4,150,069
Free Cash Flow(1)	703,434	701,050	676,620	4,438,293
Basic Earnings/(Loss) per share	(0.0282)	(0.0288)	0.0578	(0.1068)
Diluted Earnings/(Loss) per share	(0.0282)	(0.0288)	0.0578	(0.1068)
Book Value per outstanding share(2)	0.3593	0.2084	0.3593	0.2084
Weighted basic average number of shares outstanding	87,298,840	106,317,656	52,466,321	106,312,767
Weighted diluted average number of shares outstanding	109,186,393	133,746,009	66,944,650	133,741,120

(1) EBITDA, Adjusted EBITDA, Free Cash Flow and Net Asset Value per outstanding share are non-IFRS measures. Refer to section Definition of Non-IFRS Measures for further explanation and definitions.
(2) Calculated by taking Total Shareholders' Equity as reported on the Statements of Financial Position over the number of outstanding shares.

Revenue analysis

Three months ended December 31, 2018

	Three months ended December 31, 2018	Three months ended December 31, 2017	Growth %
Royalty and loan payment income	$ 1,209,263	$ 1,133,230	6.7
Realized gain from royalty buyouts	282,646	-	N/A
Realized loss from sale of equity investments	(864,764)	-	N/A
Foreign exchange gain (loss)	649,676	93,949	591.5
Adjustments to fair value	6,652,985	(3,963,288)	267.9
Realized loss from investments written off	(9,827,430)	(155,000)	6,340.3
Licence fee income	(354)	(2,571)	86.2
Global Partners fee income	855,109	-	N/A
Other income (including other interest income)	51,429	22,748	126.1
Share of joint venture	-	-	N/A
Total revenue	**(991,440)**	**(2,870,932)**	65.5

Revenues were $(991,440) for the three-month period ended December 31, 2018 compared to $(2,870,932) for the three-month period ended December 31, 2017. Royalty and loan payment income for the three-month period ended December 31, 2018 was $1,209,263 representing a 6.7% increase from the three-month period ended December 31, 2017. The increase was due to royalty payment income of $295,412 earned during the three-month period ended December 31, 2018, generated from new investments acquired in the last twelve months as well as an existing investment that was restructured and began making payments, but this was offset by royalty payment income of $231,492 earned during the three-month period ended December 31, 2017 that was not earned in the current quarter due to two investments not accruing any income due to non payment.

Realized loss from sale of equity investments was $(864,764) for the three-month period ended December 31, 2018 compared to zero for the three-month period ended December 31, 2017. The realized loss of $(864,764) was in respect of losses on the sale of shares in Lattice Biologics Ltd. ("Lattice").

In accordance with *IFRS 9 Financial Instruments,* all components, some of which are non-cash items, that impact the value of the financial asset must be included in revenue. For the three-month period ended December 31, 2018, revenues were impacted by IFRS 9 net non-cash items of $(2,524,769) compared to $(4,024,339) for the three-month period ended December 31, 2017. The non-cash amount of $(2,524,769) was made up of $6,652,985 for adjustments to fair value, $(9,827,430) realized loss on investments written-off that were previously written-down to zero and $649,676 for foreign exchange gain. Included in the adjustments to fair value was $(1,458,764) for the decrease in the fair value of the shares held in Inner Spirit Holdings Inc. ("Inner Spirit"), Boardwalktech Software Corp. ("Boardwalktech") and Crimson Energy Ltd., ("Crimson Energy") net of gains for shares held in Lattice and warrants held in DionyMed Holdings Inc. ("DionyMed"), $9,944,398 for a reversal of the fair value adjustment following the write off of 6837701 Canada Inc. ("Dove Cleaners"), Compression/Generation Services LLC ("Compression") and BESH Holding Corporation/Westlake Financial Group, Inc. ("Westlake") investments during the quarter and $(1,832,649) for fair value adjustments on various investments in the portfolio.

Global Partner revenue was $855,109 for the three-month period December 31, 2018. Of the $855,109, $805,110 related to income from sales-related fee earning contracts and $49,999 was from an amortization of deferred fee income. The fee income of $805,110 is an increase of approximately 12% compared to the three-month period ended December 31, 2017.

For the three-month period ended December 31, 2018, other income was $51,429, of which $28,748 related to interest earned on short-term investments of available cash and $22,675 related to gains realized on the repurchase of the debentures under a normal course issuer bid **("NCIB"**). For the three-month period ended December 31, 2017, other income of $22,748 was for interest earned on short-term investments of available cash.

Year ended December 31, 2018

	Year ended December 31, 2018	Year ended December 31, 2017	Growth %
Royalty and loan payment income	$ 4,597,550	$ 4,692,908	(2.0)
Realized gain from royalty buyouts	796,140	3,000,000	(73.5)
Realized loss from sale of equity investments	(1,078,615)	-	N/A
Foreign exchange gain (loss)	788,356	(1,809,435)	143.6
Adjustments to fair value	14,017,372	(9,053,879)	254.8
Realized loss from investments written off	(17,932,127)	(7,449,269)	(140.7)
Unrealized gain from investment derecognized	-	922,284	N/A
Consultancy fee income	1,390,906	-	N/A
Licence fee income	30,786	11,289	172.7
Global Partners fee income	1,851,417	-	N/A
Other income (including other interest income)	120,595	83,009	45.3
Share of joint venture	11,706	(128)	9,145.3
Total revenue	**4,594,086**	**(9,603,221)**	147.8

Revenues were $4,594,086 for the year ended December 31, 2018 compared to $(9,603,221) for the year ended December 31, 2017. Royalty payment income for the year ended December 31, 2018 was $4,597,550 representing a 2.0% decrease from the year ended December 31, 2017. The decrease was due to royalty payment income of $747,710 earned during the year ended December 31, 2017 on three investments that in 2018 have not accrued income throughout the entire period, $310,225 earned in 2017 on the Aquam investment that was bought-out in April 2017 offset by $976,247 royalty payment income earned on new investments in the last twelve months.

Realized gain from royalty buyouts was $796,140 for the year ended December 31, 2018 compared to $3,000,000 for the year ended December 31, 2017. The $796,140 was in respect of the royalty buyouts for FIXT Wireless, Boardwalktech and Frequentz, Inc. ("Frequentz") in February 2018, June 2018, and December 2018, respectively and the $3,000,000 was for the Aquam investment buyout closed in April 2017.

Realized loss from sale of equity investments was $(1,078,615) for the year ended December 31, 2018 compared to zero for the year ended December 31, 2017. Of the $(1,078,615), $(1,105,642) was in respect of losses on the sale of shares in Lattice offset by a small gain of $27,027 on the sale of shares in Boardwalktech.

In accordance with *IFRS 9 Financial Instruments,* all components, some of which are non-cash items, that impact the value of the financial asset must be included in revenue. For the year ended December 31, 2018, revenues were impacted by IFRS 9 net non-cash items of $(3,126,399) compared to $(17,390,299) for the year ended December 31, 2017. The non-cash amount of $(3,126,399) was made up of $14,017,372 for adjustments to fair value, $(17,932,127) realized loss on investments written-off that were previously written-down to zero and $788,356 for an unrealized foreign exchange gain.

The $1,390,906 consultancy fee income for the year ended December 31, 2018 was in respect of services provided to 2 investee companies. The consideration for the consultancy fee income were warrants issued by the investee to the

Company. The Global Partners fee income of $1,851,417 is LOGiQ's share of the referral income earned for the period June 7, 2018 to December 31, 2018.

For the year ended December 31, 2018, the $120,595 other income was made up of interest earned on short-term investments of available cash and gains on the repurchase of the convertible debentures under the NCIB. For the year ended December 31, 2017, other income of $83,009 was for interest earned on short-term investments of available cash.

Operating expense analysis

Total operating expenses were $1,634,365 and $5,759,958 for the three-month period and year ended December 31, 2018 compared to $1,196,340 and $3,963,374 for the three-month period and year ended December 31, 2017. Operating expenses for the three-month period ended December 31, 2018 were $438,025 higher than the three-month period ended December 31, 2017 due to (i) operating costs of $566,772 incurred by the acquired LOGiQ business during the three-month period ended December 31, 2018, (ii) amortization cost of $409,048 on the Global Partner intangible asset offset by $105,994 lower salary costs and $393,891 lower withholding tax expense. Operating expenses for the year ended December 31, 2018 were $1,796,584 higher than the year ended December 31, 2017 due to (i) $706,250 restructuring costs, (ii) operating costs of $1,113,874 incurred by the acquired LOGiQ business from June 7 to December 31, 2018, (iii) amortization cost of $923,631 on the Global Partner intangible asset and (iv) $365,859 transaction costs for the reverse acquisition offset by $433,793 lower salary costs, $69,725 lower office rent cost, $297,689 lower withholding tax expense and a harmonized sales tax ("HST") expense of $400,000 recognized during the year ended December 31, 2017 for overclaimed HST input tax credits.

Salaries, benefits, and other staffing costs were $546,971 and $1,569,076 for the three-month period and year ended December 31, 2018, compared to $327,491 and $1,341,774 for the three-month period and year ended December 31, 2017. Salaries, benefits, and other staffing costs for the three-month period ended December 31, 2018 were higher by $219,480 due to $325,084 for the cost of the new LOGiQ business employees offset by savings of $105,995 because of three fewer employees in the Flow Capital business. Salaries, benefits, and other staffing costs for the year ended December 31, 2018 were higher by $227,302, as the cost of the new LOGiQ business employees were offset by savings because of three fewer employees in the Flow Capital business.

The $706,250 restructuring cost for the year ended December 31, 2018, relates to a contract payment for the former CEO and the termination of the employment agreement for a managing director of the Company.

Management and facility fees were $27,153 and $84,328 for the three-month period and year ended December 31, 2018 compared to $36,920 and $157,959 for the three-month period and year ended December 31, 2017. This expense relates to the Company's offices in Toronto and the lower expense was due to the cost saving in moving to a new office in October 2017. Share-based compensation was $27,086 and $195,462 for the three-month period and year ended December 31, 2018 compared to $66,844 and $291,913 for the three-month period and year ended December 31, 2017. The lower share-based compensation expense of $39,758 and $96,451 for the three-month period and year ended December 31, 2018 compared to the three-month period and year ended December 31, 2017 was due to 2,424,861 options expired and forfeited during 2018.

Depreciation and amortization were $433,119 and $1,022,606 for the three-month period and year ended December 31, 2018 compared to $12,845 and $40,796 for the three-month period and year ended December 31, 2017. The higher expense for the three-month period and year ended December 31, 2018 was because of the amortization expense of $409,048 and $923,631 for the acquired intangible asset in the LOGiQ business and an increase in the depreciation cost of $24,072 and $98,975 due to the amortization of the cost incurred in fitting-out the new office of the Company.

Professional fees were $328,049 and $1,319,706 for the three-month period and year ended December 31, 2018 compared to $229,856 and $1,320,324 for the three-month period and year ended December 31, 2017. Professional fees for the three-month period ended December 31, 2018 were higher by $79,734 due to year-end related accounting, audit and legal fees incurred by LogiQ in the quarter.

Office and general administrative expenses were $271,987 and $862,530 for the three-month period and year ended December 31, 2018 compared to $522,394 and $810,618 for the three-month period and year ended December 31, 2017. Office and general administrative expenses for the three-month period ended December 31, 2018 were lower by $250,407 due to a withholding tax expense of $393,891 for the three-month period ended December 31, 2017 offset by office and general administrative expenses of $191,004 incurred by the new LOGiQ business.

Free cash flow

Free Cash Flow[(1)] was $703,434 and $676,620 for the three-month period and year ended December 31, 2018 compared to $701,050 and $4,438,293 for the three-month period and year ended December 31, 2017. Free Cash Flow[(1)] for the year ended December 31, 2018 was $3,761,673 lower due to Free Cash Flow[(1)] of $3,532,859 generated from the Aquam investment buyout in April 2017.

Analysis for further items included in the Results of Operations

As part of the reverse acquisition of LOGiQ, the Company assumed an outstanding 7% convertible debenture of $5,213,590 ("Series B"). The financing expense for this Series B debenture for the period from June 7, 2018 to December 31, 2018 was $435,448 which explains the increase in the financing expense for the three-month and year ended December 31, 2018 compared to the three-month and year ended December 31, 2017.

EBITDA (Loss) was $(2,192,686) and $5,315,881 for the three-month period and year ended December 31, 2018 compared to an EBITDA (Loss)(1) of $(4,053,740) and $(13,525,112) for the three-month period and year ended December 31, 2017. The increase of $1,861,054 and $18,840,993 in EBITDA(1) for the three-month period and year ended December 31, 2018 compared to the three-month period and year ended December 31, 2017 was due to a combination of non-cash items the most significant were the bargain purchase gain of $5,459,147 arising in the year ended December 31, 2018, and the change over the reporting periods in the realized loss from investments written-off and adjustments to fair value totalling $1,499,570 and $14,263,900.

Adjusted EBITDA(1) was $411,364 and $1,873,021 for the three-month period and year ended December 31, 2018 compared to $65,313 and $4,150,069 for the three-month period and year ended December 31, 2017. The increase in Adjusted EBITDA(1) for the three-month period ended December 31, 2018 compared to the three-month period ended December 31, 2017, was due to Adjusted EBITDA(1) of $191,818 earned by the LOGiQ business and the $282,646 realized gain on the Frequentz buyout during the three-month period ended December 31, 2018. The decrease in Adjusted EBITDA(1) for the year ended December 31, 2018 was due to the $3,000,000 royalty buyout gain on the Aquam investment closed in April 2017 offset by Adjusted EBITDA(1) of $473,558 earned by the LOGiQ business from June 7, 2018 to December 31, 2018.

Income taxes were $(820,123) and $(977,669) for the three-month period and year ended December 31, 2018 compared to $(1,177,788) and $(3,982,485) for the three-month period and year ended December 31, 2017 respectively. The effective tax rate for all periods was 26.50% and a full deferred tax recognition was made for all taxable, deductible temporary differences and losses carried forward. No tax provision was made on the bargain purchase gain of $5,459,147 recognized during the year ended December 31, 2018.

(Loss) Profit after taxes was $(2,458,672) and $3,030,163 for the three-month period and year ended December 31, 2018 compared to a loss after taxes of $(3,339,863) and $(11,351,423) for the three-month period and year ended December 31, 2017. The positive increase of $881,191 and $14,381,586 in (Loss) Profit after taxes for the three-month period and year ended December 31, 2018 compared to the three-month period and year ended December 31, 2017 was due to a combination of non-cash items the most significant were the bargain purchase gain of $5,459,147 arising in the year ended December 31, 2018 and the difference in the realized loss from investments written-off and adjustments to fair value totalling $943,843 and $12,588,392.

(1) EBITDA, Adjusted EBITDA and Free Cash Flow are non-IFRS measures. Refer to section Definition of Non-IFRS Measures for further explanation and definitions.

PORTFOLIO UPDATE

Portfolio Performance Overview

LOGiQ Global Partners

	Three months ended December 31, 2018 (1)	Three months ended December 31, 2017 (2)	Year ended December 31, 2018 (1)	Year ended December 31, 2017 (2)
Revenue from fee earning contracts	805,110	716,471	3,048,802	2,765,350
Number of investment managers	29	24	29	24
Number of contracts and arrangements	57	33	57	33

(1) The calculation of the fee by the investment managers is not finalized and this amount is management's best estimate.
(2) Flow Capital acquired LOGiQ effective June 7, 2018 and the amounts earned from June 7, 2018 have only been recognized in Flow Capital's financial statements.

Assets held by investors as at September 30, 2018 was estimated to be $2,872,214,359.

Flow Capital Investment Division

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Number of company investments	43	40	43	40
Number of company investments in period	-	1	3	7
Number of royalty buyouts since inception	9	6	9	6
Total capital deployed	1,154,573	829,665	6,899,497	5,048,298
Total capital under management(2)	77,627,106	70,784,202	77,627,106	70,784,202
Total capital deployed since inception	76,024,420	69,100,050	76,024,420	69,100,050
Cash returned from royalty payments and Royalty buyouts(1) since inception	51,650,534	43,911,352	51,650,534	43,911,352
Cash returned from royalty payments and Royalty buyouts(1) during the period	2,604,961	1,350,788	7,739,182	10,966,739
Cash returned as % of capital deployed	68%	63%	68%	63%
Weighted average royalty rate(1)	2.67%	3.60%	2.67%	3.60%

(1) Weighted average royalty rate and Cash returned from royalty payments and royalty buyouts are non-IFRS measures. Refer to section Definition of Non-IFRS Measures for further explanation and definitions.
(2) Includes both the capital deployed by the Company and the amounts invested by co-investors.

In the last quarter of the year ended December 31, 2016, Flow materially refocused its investment strategy to favor companies with higher growth, measurable recurring or predictable revenue, the capability to raise capital from other investors, minimizing downside with general security agreements, and by increasing upside potential through equity and warrants. The Company has deployed $12,080,963 in twelve companies with this refocused investment startegy and to date, the cash returned from royalty payments and Royalty buyouts(1) on these investments was $5,233,241 or 43% of the capital deployed. Of the twelve investments, three have resulted in Royalty buyouts(1) during 2018 with cash of $2,896,089 returned from the $1,809,904 deployed. Given the inherent risk of such high return potential growth companies, the Company expect to incur losses and in 2018, Flow recorded a $2,515,087 write-down in the investment in Solar Brokers Canada Corp. and Green Lion Eco Group Corp. ("Solar Brokers"). For the remaining eight investments, total revenues have increased since the investment started.

For the three-month period ended December 31, 2018, the cash returned from Royalty payments and Royalty buyouts(1) was $2,604,961 compared to $1,350,788 for the three-month period ended December 31, 2017. The increase in the three-month period ended December 31, 2018, was due to US$1,062,500 returned to the Company from the investment in Frequentz, Inc. Since inception, the cash returned from Royalty payments and Royalty buyouts(1) was $51,650,534 representing 68% of the total capital deployed.

During the year ended December 31, 2018, the adjustments to fair value were $14,017,372. Of this amount, $17,932,127 related to investments written-off during the period where previously the investments were written-down to nil. For the remaining balance of $(3,914,755), $160,476 related to fair value adjustments for shares and warrants held in investee companies, the value of a promissory note was written-down by $(1,116,994) and $(2,958,237) was in respect of fair value adjustments to active royalty investments. During the three-month period ended December 31, 2018, the adjustments to fair value were $6,652,985 of which $9,799,009 related to investments written-off during the period where previously the investments were written-down to nil. For the remaining balance of $(3,146,024), $(1,458,764) related to fair value adjustments for shares and warrants held in investee companies and $(1,687,260) was in respect of fair value adjustments to active royalty investments. Adjustments to fair value are unrealized by their nature and in a portfolio as diverse as Flow Capital's, there will be movements up and down from reporting period to reporting period.

Portfolio Activity

For the three-month period ended December 31, 2018, the Company deployed capital of $1,154,573 as follows:

	$
Follow-on royalty investment in Stability Healthcare Inc. ("Stability")	561,255
Advances under line of credit provided to Solar Brokers	593,318
Total	1,154,573

The total capital deployed since January 1, 2018 was $6,899,497. The pipeline for new company investments continues to be strong with 252 investment prospects reviewed by the Company during the three-month period ended December 31, 2018 compared to 185 during the three-month period ended December 31, 2017. Since inception the Company has brought a greater level of automation to deal flow.

The Company has from time-to-time earned equity or warrants in exchange for providing an investment or advisory services to investees, or in other cases, such as when an existing royalty is converted into equity. Since January 1, 2018, the Company has invested in equity securities as follows:

- On January 22, 2018, the Company announced it had reached an agreement with Inner Spirit, to convert the Company's $1,000,000 royalty agreement in Watch It! Consolidated Ltd. to 10,000,000 shares in Inner Spirit at a price of 10 cents per share;
- As part of the investment in DionyMed on April 4, 2018, the Company received 80,000 warrants at an exercise price of $1.50 with an exercise period of up to 5 years. On May 25, 2018, the Company was granted 90,000 warrants in DionyMed at an exercise price of $1.50 with an exercise period of up to 5 years for arranging an additional $900,000 investment from a third party. On September 14, 2018, the Company acquired a further 20,000 warrants with an exercise price of $1.50 when purchasing Darwin's investment in DionyMed;
- On April 22, 2018, the Company announced that it had been granted the right, in connection with advisory services provided by Flow Capital to Boardwalktech but subject to the completion of a reverse takeover by Boardwalktech, to earn up to 399,424 common share purchase warrants of Boardwalktech at an exercise price of US$1.67 per share. On June 4, 2018, the Company received 399,424 warrants issued by Boardwalktech to purchase 399,424 common shares in Boardwalktech at an exercise price of US$1.67 and a fair value of $1,365,572 was recognized representing income for the Company. On June 7, 2018, the Company exercised 79,884 warrants at a cost of $172,734. At the date of issue, 80% of the warrants are held in escrow to be released in 20% increments every three months thereafter meaning that as at December 31, 2018, 159,770 warrants are available to be exercised with 159,770 warrants still in escrow. The warrants are not publicly traded or listed on any stock exchange;
- On July 24, 2018, the Company became a shareholder of Solar Brokers Canada Corp. and its affiliate Green Lion Eco Group Corp. Flow Capital took a 33% interest in each company. In January 2019, the Company announced that due to the poor financial condition of both companies, the book value of all the investments made in Solar Brokers was zero;
- During the year, the Company received 4,000,000 shares in Medical Imaging Corp. ("Medical Imaging") as part of the restructuring of the royalty investment. The shares of Medical Imaging are on the OTC under the stock symbol MEDD. As the shares of Medical Imaging are not actively traded, the Company have valued the holding at zero; and
- As part of the additional investment made in Stability on November 13, 2018, the Company were granted 90,152 warrants with an exercise price US$1.65 and an expiry date of November 30, 2023. The warrants are not publicly traded or listed on any stock exchange.

A summary of the equity securities in the portfolio as of December 31, 2018 was as follows:

	# of securities	Cost Dec. 31, 2018	Carrying amount Dec. 31, 2018
Common shares			
Lattice	11,952,600	$ 2,372,657	$ 119,526
Inner Spirit	14,455,000	1,004,050	1,951,425
Boardwalktech	70,684	152,841	50,186
Medical Imaging	4,000,000	0	0
Crimson	1,871,358	299,528	249,607
Warrants (not publicly traded)			
Boardwalktech	319,540	1,365,572	56,322
DionyMed Holdings Inc. ("Dionymed")	190,000	53,442	454,246
Stability	90,152	90,395	90,395
Total		**$ 5,338,485**	**$ 2,971,707**

Management believes that by blending royalties and equity, returns can be optimized for our shareholders. The Company will continue this strategy in select cases where management believes that holding equity can significantly outperform the risk/returns from the royalty. During the year ended December 31, 2018, the Company sold 6,294,000 shares of Lattice generating gross cash proceeds of $154,648. The book value of the other Lattice investments is zero.

Investment Update

The following was the activity with respect to individual investments since January 1, 2018:

Solar Brokers: is based in Toronto and was one of Canada's largest solar sales organizations. Solar Brokers has brokered the sale of over 30 megawatts of solar to homeowners in Ontario since 2012, selling through online and premium retail channel partners. On January 2, 2018, the Company invested $950,000 and Darwin invested $125,000 and the funds were used for growth capital. In February 2018, Flow Capital arranged a further $375,000 investment into Solar Brokers from an independent third-party investor. Between July 19, 2018 and December 31, 2018, the Company advanced $1,447,318 to Solar Brokers under a secured line of credit. In July 2018, the Company also became a 33% shareholder of Solar Brokers. On September 14, 2018, the Company acquired Darwin's $125,000 investment for $125,000. In January 2019, the Company announced that due to the poor financial condition of Solar Brokers, the book value of all investments was written-down to zero, recording a loss of $2,515,807 during the year. Due to the significant liabilities, the Company does not expect to recover any part of the investment or earn any of the monthly revenue of $52,398 under the investments.

WatchIt! Inc. ("WatchIt"): On January 22, 2018, the Company converted its $1,000,000 royalty agreement in Watch It! Consolidated Ltd. to 10,000,000 shares in Inner Spirit at a price of 10 cents per share. With the conversion, the Company held 14,455,000 shares or approximately 13 percent of the total issued and outstanding common shares of Inner Spirit. On July 30, 2018, Inner Spirit became listed on the Canadian Securities Exchange (the "CSE") and the stock started trading. The holding in Inner Spirit provides Flow Capital an investment in Inner Spirit's recreational cannabis business and its retail growth strategy and an opportunity to monetize the investment if the stock of Inner Spirit has significant trading volumes.

Fixt Wireless Inc. ("Fixt"): On February 28, 2018, Fixt bought-out its entire royalty investment of $250,000 for $500,000. Flow Capital's participation in the investment was $125,000 and Flow Capital realized a gain of $125,000.

DionyMed; DionyMed is an Ontario based holding company and is the parent of Herban Industries Inc. and Herban Industries CA LLC. Herban Industries is the operating business based in California and is the owner of a Manufacturing and Distribution of Cannabis license in California. On April 4, 2018, an investment of $1,000,000 was made into Dionymed of which the Company invested $800,000 and Darwin invested $200,000. In May 2018, Flow Capital arranged a further $900,000 investment into DionyMed from an independent third-party investor for which Flow Capital earned 90,000 warrants. All funds were used for growth capital. On September 14, 2018, the Company acquired Darwin's $200,000 investment for $200,000 which included 20,000 warrants of DionyMed. On November 29, 2018, Dionymed became listed on the Canadian Securities Exchange (the "CSE") and the stock started trading. The Company holds 190,000 warrants in Dionymed at a strike price of CAD $1.50 and provides Flow Capital an investment in the US recreational cannabis business and an opportunity to monetize the investment as the stock of Dionymed has significant trading volumes.

Boardwalktech; On June 4, 2018, the Company were granted 399,424 warrants issued by Boardwalktech to purchase 399,424 common shares in Boardwalktech at an exercise price of US$1.67 in consideration for consultancy services provided. On June 7, 2018, the Company exercised 79,884 warrants at a cost of $172,734. The warrants are not publicly traded or listed on any stock exchange. On June 11, 2018, Boardwalk became listed on the TSX Venture Exchange. On June 21, 2018, Boardwalktech bought-out the entire investment of which Flow Capital received US$600,000 and realized a gain of $400,200.

Stability; based in Los Angeles, Stability is a travel-based nurse staffing business. On April 24, 2018, the Company invested US$875,000 and Darwin invested US$125,000 in Stability. In May 2018, Flow Capital arranged a further US$250,000 investment into Stability from an independent third-party investor. On September 14, 2018, the Company acquired Darwin's $125,000 investment for $125,000. In November 2018, the Company invested a further US$425,000 which included 90,152 warrants of Stability been granted to the Company. All invested funds will be used for growth capital.

1736367 Alberta Inc. ("Expert Homes"); as of February 11, 2019, the Company has invested $2,060,000 in Expert Homes which generates revenue of $42,917 per month. Due to the fall in revenues during 2018, Expert Homes requires support from the Company and other creditors to continue with its business operations. The last royalty payment received by the Company was for April 2018 and the timing as to when Expert Homes will resume making a payment is uncertain. As of December 31, 2018, the book value of the investment was written-down to zero and a $2,357,173 loss was recognized during for the year ended December 31, 2018.

Medical Imaging; In September 2018, Medical Imaging sold its subsidiary Schuylkill Open MRI, Inc. ("SMI") for $2,250,000. From the proceeds, Medical Imaging repaid the US$500,000 secured promissory note, paid US$125,000 in outstanding interest and $35,000 off the royalty investment. Following the sale of SMI, Medical Imaging has one remaining business operation based in Canada with annual revenues of $3,500,000. At the same date, the Company agreed to restructure the $2,000,000 royalty investment whereby the royalty rate was reduced to 2.50% from 5.50% and the monthly minimum royalty reduced from US$47,657 to US$6,000. As part of the restructuring of the royalty, Flow Capital received 4,000,000 shares in Medical Imaging, a right to receive 40% of any sale proceeds of the remaining business operation and granted a first security position on all the assets of Medical Imaging. As the modifications to the terms of royalty investment were significant, the Company have recognized a realized loss of

US$1,965,000 during the three-month period ended September 30, 2018 and this loss was included in the statement of comprehensive income (loss) under realized loss from investments written-off. The fair value recognized for the royalty investment prior to and after the restructuring was zero.

Frequentz.: On December 3, 2018, the Company's US$850,000 investment in Frequentz was bought-out for US$1,062,500. Flow Capital realized a gain of C$282,646 and generated a 1.53 cash-on-cash return over the eighteen months of the investment. The Company has maintained the right to receive 5% of the excess, if Frequentz receive in the future proceeds and income greater than US$4,500,000 from the remaining asset it holds.

Agnity Global, Inc. ("Agnity"): The Company announced on January 29, 2019, the closing of the sale of the royalty agreement with Agnity to Universal mCloud Corp. ("mCloud"). The purchase price was US$153,227 paid at close, US $2,000,000 in the form of a senior secured note, plus $525,000 or 1.5 million mCloud shares, chosen at Flow's election, and another 3.5 million shares if certain milestones are met within the next six years. The senior secured note is for a term of up-to twelve months, paying monthly interest of US$41,667. Flow will receive the $525,000 or 1.5 million mCloud shares when the note is repaid. At December 31, 2018, the book value of the investment in Agnity was US$1,997,652.

Cherubim Builders Group, LLC ("Cherubim"): The Company made an US$1,000,000 investment in Cherubim in 2014. In December 2018, the Company started legal proceedings to recover its investment and past due royalty payments. As of today, Cherubim or any of the parties named in the court petition have not responded and the Company are proceeding to obtain a default judgement. The book value of this investment has been zero since 2016.

Medallion Holding Company, LLC ("Medallion"): The Company made an US$2,000,000 investment in Medallion in 2015. On August 31, 2018, the Company was granted a default judgement for US$3,924,630. The Company is currently negotiating a forbearance agreement with Medallion. Since the granting of the default judgement, the Company has collected US$62,500. The book value of this investment has been zero since 2017.

During the year ended December 31, 2018, the Company wrote-off the following investments:

	Investment date	**$**
Steam Plant and CHX Systems Ltd.	December 2015	2,854,800
Compression	December 2015	6,960,309
Westlake	December 2015	1,338,700
One Up Games, LLC	August 2014	2,187,200
Dove Cleaners	April 2015	1,500,000
Total		**14,841,009**

The Company is actively pursuing legal proceedings against Compression, Westlake and Dove Cleaners. While some settlement discussions are in progress with Westlake, the Company expects that the legal proceedings against the three investees will continue for some time until a satisfactory outcome is reached.

Royalty buyouts

Since the first royalty buyout in July 22, 2015, the Company has closed nine royalty buyouts. For the completed royalty buyouts, the table below discloses: (a) the date of the royalty buyout; (b) the aggregate investment; (c) the gross amount and the net amount received; (d) the realized gain on the royalty buyout; (e) the cumulative cash generated including the royalty payments by the investment over the life of the investment; and (g) cash on cash return as of the date hereof as follows:

Investee Company	Date of Royalty Buyout	Date of Investment	Aggregate Investment Amount	Royalty Buyout Amount	Gains Realized on Royalty Buyout	Cumulative Cash Generated Over the Life of the Investment	Cash-on-Cash Return (2)
Wmode	July 23, 2015	November 1, 2013	$1,000,000	$2,783,010	$1,783,010	$3,147,358	3.15
DS Handling	September 25, 2015	September 5, 2014	$1,000,000	$1,387,500	$387,500	$1,650,268	1.65
INOVx	October 6, 2015	July 1, 2014	US$2,000,000 ($2,137,000)	$2,247,158	$(11,089) (1)	$2,722,238	1.27
Above Security	October 20, 2015	August 15, 2014	$3,000,000	$6,000,000	$2,700,000	$6,453,861	2.15
4Tell	November 17, 2015	December 31, 2013	US$1,000,000 ($1,090,215)	$1,444,377	$377,862(1)	$1,855,519	1.70
Aquam Corporation	April 18, 2017	June 6, 2014	$2,000,000	$5,000,000	$3,000,000	$7,527,821	3.76
Fixt	February 28, 2018	April 25, 2017	$125,000	$250,000	$125,000	$276,563	2.21
Boardwalktech	June 21, 2018	December 15, 2017	US$300,000 ($386,040)	$800,400	$400,200	$849,073	2.20
Frequentz	December 3, 2018	June 6, 2014	US$850,000 ($1,126,130)	$1,413,125	$280,628	$1,718,770	1.53
Total			**$11,864,385**	**$21,325,570**	**$9,043,111**	**$26,201,471**	**2.21**

(1) These amounts include foreign exchange gains of $422,898 and $264,285 respectively realized when the royalty agreement was bought out.
(2) Calculated by taking Cumulative Cash Generated Over the Life of the Investment over the Aggregate Investment Amount.

During the year ended December 31, 2018, the $125,000 Fixt investment, the US$300,000 Boardwalktech investment and the US$850,000 Frequentz investment were bought-out for $250,000, US$600,000 and US$1,062,500, respectively. The Company's total cash on cash return was 2.21X, 2.20X and 1.53X respectively. Excluding royalty payments, the Company has received $21,025,570 from Royalty buyouts to date. Cash generated from Royalty buyouts remains for Flow Capital the most competitive low-cost form of capital for growth. The Company expects that Royalty buyouts will continue to crystalize in the future.

In addition, the Pliteq investment was fully repaid on August 31, 2016. The investment generated cash of $500,000 since the start of the investment, two times the original investment amount. At the start of the investment the anticipated term was 48 months but as the investment was fully repaid within 36 months, a $98,679 gain was realized. During the year ended December 31, 2018, Medical Imaging fully repaid a US$500,000 promissory note.

Past due for payments outstanding on investments at fair value

As of December 31, 2018, 17 of the 23 outstanding investments are paying a full or partial royalty compared to 19 of the 27 outstanding investments as of September 30, 2018. The following table shows the actual outstanding royalty payment past due at the end of each period:

	Dec. 31, 2018	Sept 30, 2018	June 30, 2018	March 31, 2018	Dec. 31, 2017
Past due					
- 30 days or less	$ 2,046	$ 53,938	$ 41,708	$ 4,000	$ -
- 31 to 60 days	-	29,111	41,708	4,000	-
- 61 to 90 days	56,842	-	4,000	-	-
- Over 91 days	-	4,000	4,000	-	-
Total	**$ 58,888**	**$ 87,049**	**$ 91,416**	**$ 8,000**	**$ -**

In relation to the table:
- Since December 31, 2018, the $58,888 that was past due has been collected.
- During 2017, the Company agreed with one investee company to defer US$15,000 of the monthly royalty payment starting from March 2017. At the end of December 2018, the amount deferred was US$346,051 and the royalty deferred is not considered as past due though the amount deferred is still due from the investee. The investee company has paid $31,126 and $184,831 for the three-month and year ended December 31, 2018;
- During the three-month period ended March 31, 2018, the Company agreed to reduce the monthly royalty on two investments which at the time were not past due. The Company has received $11,812 and $57,251 from both

investee companies for the three-month and year ended December 31, 2018. Any royalty payment deferred was not reflected as a past due amount; and
- As of December 31, 2018, there were $524,649 of outstanding royalty payments where the fair value recognized was zero compared to $556,632 as at September 30, 2018. The reduction during the three-month period ended December 31, 2018 was due to outstanding payments of $67,068 of payments collected and a $(29,110) fair value adjustment made during the quarter.

OUTLOOK

Flow Capital is a diversified alternative asset investor and advisor. Its two operating divisions create shareholder value in four distinct ways as follows:

1) Stable, recurring revenues from a diverse portfolio of royalties in North American emerging growth companies,
2) Royalty buyouts or buydowns,
3) Realized returns from equity and warrants in those companies, and
4) Stable, recurring revenues from a diverse portfolio of sales-related fee earning contracts with third-party managers.

The amalgamation with LOGiQ increased the financial scale of Flow Capital and increased the size and diversity of its recurring revenues. Flow now collects revenue royalties from over fifty emerging growth companies and asset managers. The combined revenues from companies in the Growth Capital division continues to grow, which increases recurring revenues for that division, even before accounting for new investments. Revenue from the Global Partners division also continues to grow — over 10% over the last twelve months — as new mandates are won and assets under management increases.

There are four main drivers of recurring revenue growth in Flow Capital's Growth division:
1) making investments in new portfolio companies
2) increasing the average initial investment size in new portfolio companies
3) making follow-on investments in existing portfolio companies
4) sharing in the revenue growth of portfolio companies

Building dynamic lead sources is the first step in value creation in the Growth Capital division. With over thirty million small and medium sized businesses in the United States and Canada, there is a very large market of potential investment opportunities. Historically, the Company has sourced leads from the personal and professional networks of management, brokers, equity crowdsourcing websites, conferences and events, et cetera. Going forward, Flow will continue to cultivate these lead sources. In addition, it will develop new high-quality lead sources by proactively marketing the Company through digital channels such as LinkedIn and Twitter, by sponsoring events, and by establishing channel partnerships with aggregators of emerging growth companies, such as incubators.

Flow Capital is also proactively digitizing its investment workflow, to automate the processing of leads, and more generally, to increase the productivity of scaling the business.

Flow Capital's long-term strategy for scaling the business is to increase its book value by reinvesting cash yielded from recurring royalties and other non-recurring cash inflows — from both the Growth Capital division and the Global Partners division — into new royalties in North American emerging growth companies. Given that in substantially all of Flow's investments, investee companies contract for a cash-on-cash return of approximately three-times the deployed capital, not including upside from warrants, over the long run it is expected that the Company's book value will grow, notwithstanding losses from failed investments. As with any portfolio of investments in the dynamic emerging growth asset class, there will always be failed investments in Flow's portfolio. That said, it is the Company's mandate to minimize the incidence of losses while at the same time well-overcoming those losses with excess returns from the rest of the portfolio. Since 2016, the incidence of failed investments has decreased given the new management team's enhanced deal selection methodology and by structuring investments to better balance risk and return — such as by minimizing downside with general security agreements, and by increasing upside potential through equity and warrants. Three investments made since 2016 have either already been bought-out for total returns of over 2X in less than a year or have grown so quickly that their monthly royalty payments well-exceed the 25% minimum payment and royalties from these particular companies continue to grow, month on month, commensurate with their revenues. Flow Capital's plan is to continue to identify and close investments in companies such as these, thereby growing the return potential of the portfolio, and ultimately, the book value of the Company.

Flow believes that as the business scales and the Growth Capital portfolio matures, it will enjoy a lower cost of both debt and equity, thereby increasing the profitability of its investments, reinforcing the expansion of Flow Capital's book value.

As of February 11, 2019, the Company has invested approximately $76,000,000 of capital in 43 portfolio companies, earned Adjusted EBITDA[(1)] of $22,042,519 since inception in July 2013 and has generated Free Cash Flow[(1)] of $13,133,936 since July 2014. Flow Capital generated Adjusted EBITDA[(1)] of approximately $0.5 million for the three-month period ended December 31, 2018. As of February 11, 2019, the Company estimates that royalty and fee income for January 2019 will be $0.7 million with operating expenses estimated to be in the range of $0.45 million to $0.55 million on a monthly basis in Q1 2019. The Company’s cash position at February 11, 2019 is approximately $8.3 million.

(1) EBITDA, Adjusted EBITDA, and Free Cash Flow are non-IFRS measures. Refer to section Definition of Non-IFRS Measures for further explanation and definitions.

REVERSE TAKEOVER

On March 12, 2018, Grenville Strategic Royalty Corp. (“Grenville”) and LOGiQ Asset Management Inc. (“LOGiQ”) announced that they had entered into an arrangement agreement (the "**Arrangement Agreement**") pursuant to which LOGiQ has agreed to acquire all the issued and outstanding common shares of Grenville based on 6.25 common shares of LOGiQ for each outstanding Grenville Share (the "**Transaction**"). The Transaction was completed on June 7, 2018, with the pre-transaction owners of LOGiQ holding approximately 33% and the pre-transaction owners of Grenville owning approximately 67% of the combined company. Simultaneously, Grenville and LOGiQ amalgamated to form one corporate entity named Flow Capital Corp. which will continue as one corporation. The board of directors of Flow Capital was comprised of 6 people, of which 4 were designated by Grenville and the remaining 2 by LOGIQ, with most of the management of Flow Capital coming from Grenville. Based on the composition of the board of directors, the composition of key management personnel and the proportionate ownership of each control block, Grenville was deemed to have obtained control and was the acquirer of LOGiQ for accounting purposes. The transaction is accounted for as a reverse acquisition under the acquisition method of accounting for business combinations in accordance with the principles *of IFRS 3 Business Combinations.* Accordingly, the results of the acquisition have been recognized from the date of closing.

The transaction was accounted for as a reverse acquisition under the acquisition method of accounting for business combinations with Grenville being the accounting acquirer. The transactions and balances of LOGiQ, the legal parent, and its other subsidiaries, are included in the operating results from the effective date of the acquisition, being June 7, 2018. During the year ended December 31, 2018, transaction costs of $365,859 were incurred in connection with the Transaction by Grenville and have been fully expensed. Excluding the transaction costs expensed in the period, for the period June 7, 2018 to December 31, 2018, LOGiQ has contributed $1,889,302 to revenues and an operating loss of $182,907 to the net and comprehensive income (loss).

For further details regarding the Transaction and the impact on the financial statements for the three months and year ended December 31, 2018, refer to note 6 of the financial statements for the three months and year ended December 31, 2018 that can be found on Flow Capital's profile on SEDAR at www.sedar.com.

SELECTED ANNUAL INFORMATION

The following table provides financial data derived from the Company’s audited financial statements since the year ended December 31, 2016:

	Year ended December 31, 2018	Year ended December 31, 2017	Year ended December 31, 2016
Revenues	$ 4,594,086	$(9,603,221)	$(7,930,240)
Total profit/(loss) attributable to shareholders	3,030,163	(11,351,423)	(10,655,454)
Basic earnings/(loss) per share	0.0578	(0.1068)	(0.1007)
Diluted earnings/(loss) per share	0.0578	(0.1068)	(0.1007)
Total assets	56,665,349	39,392,563	49,426,466
Total non-current financial liabilities	5,810,548	16,334,427	15,950,871

Revenues for the year ended December 31, 2018 have increased by $14,197,307 compared to the year ended December 31, 2017 due to Global Partner fee income of $1,851,417, consulting fee income of $1,390,906 and $14,113,919 of IFRS 9 non-cash items offset by $2,203,860 lower realized gains for royalty buyouts. For the year ended December 31, 2018, the increase profit/(loss) attributable to shareholders was due to a combination of non-cash items the most significant were the bargain purchase gain of $5,459,147 arising on the LOGiQ acquisition and the difference in the realized loss from investments written-off and adjustments to fair value totalling $12,588,392.

For 2018, total assets increased by $17,272,786 as a result of the approximately $20,000,000 of assets identified as part of the Transaction acquiring LOGiQ. For 2017, total assets decreased by $10,033,903 due to $8,624,955 for investments written-off and extinguished plus $2,195,210 in unrealized foreign exchange losses. Included in non-current financial liabilities was $3,742,526 relating to the Series B assumed through the reverse acquisition. There were no discontinued operations in any of the financial years.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected unaudited financial information for each quarter since January 1, 2017.

	Three months end December 31, 2018	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018	Three months ended December 31, 2017	Three months ended December 31, 2017	Three months ended June 30, 2017	Three months ended March 31, 2017
Royalty payment and loan interest income	$1,209,263	$1,213,968	$1,129,882	$1,038,506	$1,133,229	$1,187,141	$1,038,897	$1,333,640
Realized gains on royalty buyouts	282,646	-	400,200	125,000	-	-	3,000,000	-
Non-cash foreign exchange and adjustments to fair value	(2,524,769)	(649,795)	(591,110)	639,278	(4,024,340)	(2,437,756)	(5,985,378)	(4,792,835)
Other income	41,420	605,967	1,626,063	41,636	20,178	27,994	29,063	16,937
Total revenue	**$(991,440)**	**$1,170,140**	**$2,565,035**	**$1,844,420**	**$(2,870,933)**	**$(1,222,621)**	**$(2,067,408)**	**$(3,442,258)**
Total profit (loss) for the period attributable to shareholders	(2,458,672)	(499,406)	5,852,776	129,222	(3,339,862)	(1,763,068)	(2,456,208)	(3,792,281)
Basic earnings / (loss) per share	(0.0282)	(0.0057)	0.0935	0.0023	(0.0603)	(0.0318)	(0.0443)	(0.0685)
Diluted earnings /(loss) per share	(0.0282)	(0.0057)	0.0808	0.0023	(0.0603)	(0.0318)	(0.0443)	(0.0685)

*includes a foreign exchange loss of $98,679 that relates to Q3 2016 and therefore is a reconciling item when comparing to the 2016 annual revenues.

The lower royalty payment income from the three-month period ended March 31, 2017 through to the three-month period ended December 31, 2018 was due to underperforming investments in 2016 and 2017 and the impact of permanently writing off seven investments. The profit of $5,852,776 for the three-month period ended June 30, 2018 includes $5,459,147 for a bargain purchase gain on the reverse acquisition of LOGiQ which is once-off and non-recurring. There were no discontinued operations in any of the financial periods.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2018, the Company's capital resources were $31,179,809 made up as follows:

86,786,764 common shares	$ 55,443,299
Warrants	486,624
Contributed surplus	1,206,422
Equity component of the convertible debentures	558,831
Accumulated other comprehensive income	127,861
Accumulated Deficit	(26,643,228)

A summary of all the offerings and details of the use of proceeds is in the following table:

Offering	Closing Date	Gross Proceeds	Net Proceeds	Amount used to acquire investments as of February 11, 2019	Amount yet to be used as of February 11, 2019
20 million special warrants exercisable into common shares @ $0.50 per special warrant	March 27, 2014	$10,000,000	$9,051,436	$9,051,436	-
$17,250,000 8% convertible unsecured subordinated debentures	July 10, 2014	$17,250,000	$15,905,455	$15,905,455	-

19,828,300 common shares @ $0.58 per share	February 26, 2015	$11,500,414	$10,517,207	$10,517,207	-
17,250,000 common shares @ $0.80 per share	May 7, 2015	$13,800,000	$12,811,549	$12,811,549	-

The Company's cash position at December 31, 2018 was $8,607,686 of which all was available to fund the business and provide growth capital to emerging businesses. All cash was held in short-term, high-quality liquid investments. The Company is satisfied that it has sufficient cash resources to meet all current obligations. The Company's cash position at February 11, 2019 is approximately $8.3 million and for the near future, growth will be financed through Free Cash Flow(1) generated from royalty payment income, Global Partners fee income and capital from royalty buyouts and sale of equity investments.

(1) Free Cash Flow is a non-IFRS measure. Refer to section Definition of Non-IFRS Measures for further explanation and definitions.

WORKING CAPITAL

Flow Capital's working capital at December 31, 2018 and December 31, 2017 was made up as follows:

	December 31, 2018	December 31, 2017
Cash and cash equivalents	$ 8,607,686	$ 7,534,383
Investments at fair value – current portion	162,005	1,098,650
Accounts receivable and accrued income	828,005	-
Prepaid expense and other receivable	1,175,122	137,124
Income tax recoverable	79,790	426,586
Accounts payable and accrued expenses	(2,311,361)	(644,664)
Deferred income – current portion	(200,000)	-
Provisions – current portion	(493,110)	-
Prepaid royalty payment and interest income	-	(251,872)
Convertible debentures	(16,667,633)	-
Finance lease liability – current portion	(2,888)	(3,560)
Total	**$ (8,822,384)**	**$ 8,296,647**

As of December 31, 2018, the outstanding principal on the Series A convertible debentures ("Series A debentures") was $17,156,000 and the remaining term to maturity was twelve months. At the same date, the Company's liquid assets were approximately $11,000,000. Management has a plan in place to manage the maturity of the Series A debentures that involves increasing the liquidity of some of it's long-term assets through sales and augmenting the cash-on-hand with cash returned from expected royalty buyouts in the forthcoming months.

A summary of the contractual and other obligations as at December 31, 2018 were:

Contractual obligation	Total	Less than 1 year	1-5 years	5 years
Accounts payable and accrued liabilities	$ 2,311,361	$ 2,311,361	$ -	$ -
Convertible debenture	20,410,159	16,667,633	3,742,526	-
Finance lease payments	2,888	2,888	-	-
Payments under operating leases	5,253,841	1,879,948	3,373,893	-
Total	**$ 27,978,249**	**$ 20,861,830**	**$ 7,116,419**	**$ -**

The obligation for payments under operating leases relates to four leases for office spaces. Three of the office spaces are sublet and therefore the Company expects to receive rental income that can be used to fund the payments. Any shortfall between the obligations under the leases and what is expected to be received under the subleases are recognized as an onerous contract and a full provision has been made. As at December 31, 2018, the provision for onerous contracts was $1,635,692.

FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Before January 1, 2015, the Company classified and measured subsequently all financial instruments at amortized cost except for cash and cash equivalents. From January 1, 2015, following the adoption of IFRS 9, the Company classified and measured subsequently all financial assets at fair value through profit and loss and financial liabilities such as accounts payable and the convertible debentures continue to be classified and measured at amortized cost.

As at December 31, 2018, the maximum credit exposure for all financial assets excluding cash and cash equivalents and equity securities in investee companies was $22,272,930 (December 31, 2017: $21,187,705). The Company has foreign currency exposures to United States dollars. The transaction exposure will be minimized by converting all foreign currency to Canadian dollars or using the funds for investments made in the United States. The Company is aware that a translation exposure exists and will continue to monitor the impact on its reported results and take the required hedging action when management considers it necessary. The foreign exchange exposure at December 31, 2018 was US$14,389,742.

Since January 1, 2015, the Company classified and measured subsequently all financial assets at fair value through profit and loss. The fair value of investments at fair value excluding equity securities in investee companies, were estimated by the Company by discounting expected future cash flows using a discount rate that includes a weighted average cost of capital using variables from the industry in which each investee company operates and company specific risk factors. Future cash flows are weighted by the Company by using a combination of a probability approach and a terminal value approach, and the fair value for each investment is individually calculated by discounting estimated future cash flows using a discount rate that considers the size of the investee, term, credit risk and changes in market conditions. The impact of the measurement of the royalty agreements acquired and promissory notes receivable that was recognized in the total comprehensive income (loss) for the year ended December 31, 2018 were $13,856,896 from adjustments to fair value and $(17,932,127) for realized losses for investments written-off. Aggregating these amounts means a loss was recorded in total comprehensive income (loss) for the year ended December 31, 2018 of $(4,075,231).

The Company holds 11,952,600, 70,684, 14,455,000, 4,000,000 and 1,871,358 common shares in Lattice Biologics Inc. (Lattice"), Boardwalktech, Inner Spirit, Medical Imaging and Crimson Energy, respectively. As the common shares of Lattice, Boardwalktech and Inner Spirit are listed on a recognized stock exchange and traded actively, the fair value of the shares held was determined by reference to the closing share price as at December 31, 2018. Based on the closing price at December 31, 2018, there was an unrealized loss of $(1,458,764) recorded in total comprehensive income (loss) for the three-month period ended December 31, 2018 for the fair value adjustment. As of December 31, 2018, the Company held 190,000, 319,540 and 90,152 warrants in DionyMed, Boardwalktech and Stability that were classified as Level 3 for fair value purposes as the warrants are not quoted on any recognized stock exchange. Similarly, the shares in Medical Imaging are on the OTC but are not actively traded and therefore the shares are classified as Level 3 for fair value purposes.

Cash and cash equivalents are classified as subsequently measured at fair value through profit or loss. All cash and cash equivalents were invested in short-term high-quality liquid investments. In the opinion of management these measures ensure that the Company is not exposed to material credit or liquidity risks on these cash and cash equivalent balances. The convertible debentures balances at December 31, 2018 and December 31, 2017 was based on the listed price of the security at that date less a calculated price for the convertible option using a Black-Scholes model.

The Company does not hold any financial derivatives at December 31, 2018 or at any time during the three-month period and year ended December 31, 2018, either for hedging or speculative purposes.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2018, Flow Capital had no commitments for material capital expenditures and no off-balance sheet arrangements.

As at December 31, 2018, the only material contractual obligations were the convertible debentures (see Liquidity and Capital Resources).

Note 31 of the financial statements for the year ended December 31, 2018, describe the contingent liabilities of the Company. The first contingent liability relates to litigation for a claim of $5,000,000 where one of the Company's subsidiaries is a co-defendant. The Company will continue to defend against the claim. The amount of the losses, if any, cannot be reasonably determined at this time. The same contingent liability relates to an indemnity under a share purchase agreement dated March 11, 2016 (the "SPA") with Brant Securities Limited ("Brant") for the sale of a wholly owned subsidiary. Under the SPA, the Company agreed to indemnify Brant in respect of certain claims, limited to a maximum amount of $300,000. The Company believe that no payment will be required because of terms in other agreements made with Brant. The third contingent liability is in January 2019, the Company was served with a statement of claim on behalf of a former employee of Front Street Capital 2004. The claim is for damages and wrongful dismissal and it relates back to the period prior to December 2016. On January 31, 2019, the Company have filed a Notice of Intent to Defend. This claim is over two years and as a result the amount of the losses, if any, cannot be reasonably determined at this time.

TRANSACTIONS BETWEEN RELATED PARTIES

Compensation of key management personnel

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Short-term employee benefits	$ 153,414	$ 228,823	$ 582,463	$ 915,759
Share-based compensation	41,623	63,527	137,503	257,693
Consultancy fees	86,336	68,201	321,699	273,235
Total	**$ 281,373**	**$ 360,551**	**$ 1,041,665**	**$ 1,446,687**

During the year ended December 31, 2018, an employee who was included in key management personnel in previous reporting periods ceased to be an employee of the Company. The Company has recognized an expense of $362,500 in respect of the termination of the employment agreement.

On April 23, 2018, the Company announced that Steven Parry resigned as a director of the Company and will assume an advisory role to the Company. In accordance with the terms of Mr. Parry's employment agreement, Mr. Parry is entitled to the sum of $343,750. On the same date, Robb McLarty was promoted to Chief Investment Officer and Acting Chief Executive Officer.

INTERNAL CONTROL OVER FINANCIAL REPORTING

As the Company grows, it will continue to enhance the internal controls over financial reporting.

LIMITATIONS OF CONTROLS AND PROCEDURES

The Company's management, including the Chief Executive Officer and the Chief Financial Officer, believe that any disclosure controls and procedures or internal controls over financial reporting, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, they cannot provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been prevented or detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by unauthorized override of the control. The design of any systems of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Accordingly, because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management is required to make estimates when preparing the financial statements. Estimates may include determining the fair values of substantially all identifiable assets, liabilities and contingent liabilities acquired in a business combination, the cash flows for royalty agreements acquired throughout the agreement including the probability of each stream of cash flows, estimates used for components of the discount rate which are used for measuring fair values, share-based payments, deferred income tax assets and before January 1, 2015 impairment of financial assets.

In a business combination, substantially all identifiable assets, liabilities and contingent liabilities acquired are recorded at the date of acquisition at their respective fair values. One of the most significant areas of judgement and estimation relates to the determination of the fair value of these assets and liabilities, including the fair value of contingent consideration, if applicable. If any intangible assets are identified, depending on the type of intangible asset and the complexity of determining its fair value, the Company determines the fair value, using appropriate valuation techniques, which are generally based on a forecast of the total expected future net cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the assets concerned and any changes in the earnings multiplier applied.

The terms of the royalty agreements provide that payments are made by investee companies and the Company had concluded that it is highly probable (which it defines as a probability equal to or exceeding 75%) that it will collect greater than 85% of its initial investment under each royalty agreement on the basis that each royalty agreement contains one or more of the following terms: (i) a right in favour of the investee company to buydown or royalty buyout part or all of the Company's royalty in exchange for a principal payment that, when combined with royalty payments made to the date of the buydown or royalty buyout, exceed the value of the Company's initial investment; and (ii) the payment of a minimum monthly royalty payment by the investee company, which provides the Company with certainty of payment over time. The term of the agreement is normally perpetual and the royalty amount received can be dependent on the revenues of the investee. As a result, uncertainties exist as to how long the agreements will exist and the royalty payment income that will be received throughout the agreement. The Company must estimate the expected cash flows based on the Company's experience of such investments, the terms of the agreement and the investee's historical cash flows. Those royalty agreements that contain a provision requiring an investee company to make a minimum monthly royalty payment provide the Company with a strong indication of what expected cash flows under that royalty agreement should be over time. In addition to historical revenues of investee companies, the Company also considers other factors, such as external market factors, future performance, and industry performance, in estimating expected cash flows from an investment.

Effective January 1, 2015, Flow Capital classifies and measures all royalty agreements acquired and promissory notes receivable at fair value through profit and loss. The Company determines the fair value using discounted cash flow models with fair value estimated by applying a discount rate based on a weighted average cost of capital using variables from the industry in which each investee company operates as well as company specific variables. Future cash flows are weighted by the Company using a combination of a probability approach and a terminal value approach, as applicable, and the fair value for each investment is individually calculated. Some or all the inputs used in the cash flow model may not be observable in the market and are generally derived from published sources that are commonly used by market participants. Because of the significant use of unobservable inputs, a high degree of management judgement and estimation is required. Management judgement is required for the determination of the expected future cash flows arising under the agreement, determination of the probability of the outcomes, adjustments to the discount rate for liquidity risk, model uncertainties and investee-specific risk factors. The extent of the adjustments to the discount rate is based on management's assessment that a third-party market participant would take them into account in pricing the transaction.

Determining the fair value of stock options and warrants requires judgments related to the choice of a pricing model, the estimation of stock price volatility, the expected forfeiture rate and the expected term of the underlying instruments. Any changes in the estimates or inputs utilized to determine fair value could result in a significant impact on the Company's future operating results or on other components of equity.

RECENT ACCOUNTING DEVELOPMENTS

The Company has adopted IFRS from incorporation as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Company adopted IFRS 9 *Financial Instruments* effective January 1, 2015 but as permitted by the transitional provisions of IFRS 9, the Company has not restated any of the financial periods prior to January 1, 2015. The IASB has issued a collection of amendments as part of its annual project "Improvements to IFRSs." They are not expected to have a material impact on the presentation of the Company's financial position or results of operations.

In January 2016, the IASB issued IFRS 16 *Leases*, which addresses the accounting, classification and measurement for all types of leases for both lessors and lessees. The application date of the new standard is January 2019 and early adoption is possible. The Company shall adopt the new standard from the effective date.

OUTSTANDING SHARES

The Company is authorized to issue an unlimited number of common shares, without nominal or par value, and no other classes of shares. As of February 11, 2019, there were issued and outstanding: (a) 85,351,264 Common Shares; (b) 7,066,667 options under the company's stock option plan to acquire common shares, at a weighted average exercise price of $0.3454; (c) convertible debentures at an average conversion price of $2.00 (or a conversion rate of 498.8 common shares for each $1,000 principal amount of debentures) which, if converted into common shares at that price, would result in the issuance of 11,084,910 common shares; and (d) 5,032,689 warrants to acquire 5,032,689 common shares at an exercise price of $0.22.

RISK FACTORS

An investment in the Company's securities should only be considered by those investors who can afford a total loss of their investment. The risks presented below should not be considered as exhaustive and may not represent all the risks that the Company may face. Additional risks and uncertainties not presently known to the Company or that the Company currently considers immaterial may also impair the Company's business operations. If any of the risks described below or in the Company's other public filings occur (including the risks discussed in the joint management information circular of the Company dated May 2, 2018), the Company's business, financial condition, results of operation or prospects could be materially adversely affected and the Company's ability to satisfy its obligations, pay dividends or continue as a going concern could be threatened.

Dependence on the Performance of Investee Companies

The Company will be dependent on the operations, assets and financial health of the SMEs from which royalties are purchased. The ability to meet operating expenses in the long-term will be largely dependent on the royalty payments received from investee companies and realized gains on royalty buyouts which will be the primary sources of cash flow. Royalty payments from investee companies will generally be based on a percentage of such companies' top line revenues. Accordingly, if the financial performance of an investee company declines, cash payments to the Company will likely decline. The failure of any investee company to fulfill its royalty payment obligations could adversely affect the Company's results of operations, prospects or cash flow and could threaten the Company's business, financial condition, ability to satisfy its obligations, pay dividends, or continue as a going concern. The Company conducts due diligence on each of its investee companies prior to entering into agreements with them and monitors investee company activities by receiving and reviewing regular financial reports. Nonetheless, there is a risk that there may be some liabilities or other matters that are not identified through the due diligence or ongoing monitoring that may have an adverse effect on an investee company's business, and this could have a material adverse impact on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations, pay dividends or continue as a going concern.

Limited Number of Investee Companies and Concentration Risk

The Company has purchased royalties from a small number of investee companies to date. While the intention is to purchase a significant number of royalties from companies in different industry sectors, it will take time to attain such diversification, if such diversification can be achieved at all. Until further diversification is achieved, the Company may have a significant portion of its assets dedicated to a single business sector or industry. In the event that any such business or industry is unsuccessful or experiences a downturn, this could have a material adverse effect on the Company's business, financial condition, and results of operations or prospects and could threaten the Company's ability to satisfy its obligations, pay dividends or continue as a going concern.

The loss of the Company's investment in Solar Brokers could have a material adverse effect on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations, pay dividends or complete additional financings or continue as a going concern.

Limited Control Over Investee Company Management

Although the royalty purchase agreements do contain approval rights in the Company's favour in respect of certain fundamental transactions involving its investee companies, the Company does not have significant influence or control over any of the investee companies or their operations as the Company does not mandate board representation as a condition to investment. Royalty payments received from the investee companies therefore depend upon several factors that may be outside of the Company's control.

Risk of Payment Defaults under Royalty Agreements

While the Company believes that the Company has structured, and will continue to structure, the royalty purchase agreements in such a way as to encourage payment of royalties and discourage default, there is no guarantee that investee companies will not default on their royalty payment obligations as a result of business failure, obligations to shareholders, obligations to lenders or to other investors or stakeholders, or that on the occurrence of a default by an investee company the Company will be able to recover all or any of the investment. Such failure could have a material adverse effect on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations or pay dividends. In addition, because the Company has structured, and generally intends to structure, its investments in investee companies on an unsecured or subordinated security basis, the Company's rights, including payment rights, will be subordinate to the rights of senior lenders of investee companies and other parties holding security interests against investee companies.

Equity Risk

Equity risk is the potential for financial loss on shares held by the Company from declines or volatility in equity market prices. The Company's equity risk relates to all the shareholdings held by the Company. Accordingly, the Company has further exposure to equity risk as adverse fluctuations in the market value of such assets will result in corresponding adverse impacts on our revenue and profits.

Regulatory Risks Relating to U.S. Cannabis Investment

By virtue of our non-controlling royalty investment in DionyMed, we expect to derive a portion of our revenues from the cannabis industry in certain jurisdictions of the United States where local and state laws permit such activities or provide limited defenses to criminal prosecutions. However, cannabis and cannabis-related practices or activities are illegal under United States federal law. As a result of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation and enforcement. As such, there are a number of risks associated with the Company’s investment in DionyMed.

Cannabis continues to be a controlled substance under the United States federal Controlled Substances Act

More than half of all U.S states, plus the District of Columbia, Puerto Rico and Guam, have legalized cannabis in some form, including the State of California. Notwithstanding the permissive regulatory environment of medical cannabis at the state level, cannabis continues to be categorized as a Schedule 1 controlled substance under the United States *Controlled Substances Act*. As such, cannabis-related practices or activities including, without limitation, the cultivation, manufacture, importation, possession, use or distribution of cannabis, are illegal under United States federal law.

Unless and until the United States Congress amends the United States *Controlled Substances Act* with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which would adversely affect our royalty investment in DionyMed. Although Flow Capital’s activities are compliant with applicable U.S. state and local law, strict compliance with state laws with respect to cannabis will neither absolve us of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against us. Any such proceedings brought against us may have a material adverse effect on our business, financial condition, results of operations or prospects and could threaten our ability to satisfy our obligations, raise capital, pay dividends or continue as a going concern.

Because of the conflicting views between state legislatures and the federal government of the United States regarding cannabis, investments in cannabis businesses in the United States are subject to inconsistent legislation, regulation and enforcement. Unless and until the United States Congress amends the United States Controlled Substances Act with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current federal law, which could adversely affect our royalty investment in DionyMed.

As a result of the tension between state and federal law, there are a number of risks associated with our investment in DionyMed. Our royalty investment in DionyMed may be illegal under the applicable federal laws of the United States and other applicable law. There can be no assurances the federal government of the United States or other jurisdictions will not seek to enforce the applicable laws against us. The consequences of such enforcement could be materially adverse to our business and could result in the forfeiture or seizure of some or all of our assets.

Violations of any United States federal laws and regulations could result in significant fines, penalties, administrative sanctions, convictions or settlements arising from civil proceedings conducted by either the United States federal government or private citizens, or criminal charges including, but not limited to, disgorgement of profits, cessation of business activities or divestiture. This could have a material adverse effect on us, including our reputation and our ability to conduct business and raise capital, the listing of our securities on various stock exchanges (including the TSXV), our financial position, operating results, profitability or liquidity or the market price of our listed securities. In addition, we cannot estimate with any certainty the time or resources that would be needed for the investigation of any such matters or its final resolution because, in part, the time and resources that may be needed are dependent on the nature and extent of any information requested by the applicable authorities involved, and such time or resources could be substantial. In the extreme case, such proceedings could ultimately involve the prosecution of some or all of our key executives or the seizure of corporate assets; however, as of the date of this AIF, we believe, and have received legal advice to the effect, that proceedings of this nature are remote.

The Company may be subject to heightened scrutiny by Canadian authorities

For the reasons set forth above, our royalty investment in DionyMed may become the subject of heightened scrutiny by regulators, stock exchanges, clearing agencies and other authorities in Canada. It has been reported by certain publications in Canada that the Canadian Depository for Securities Limited may implement policies that would see its subsidiary, CDS Clearing and Depository Services Inc. ("**CDS**"), refuse to settle trades for cannabis issuers that have investments in the United States. CDS is Canada's central securities depository, clearing and settlement hub settling trades in the Canadian equity, fixed income and money markets. The TMX Group, the owner and operator of CDS, subsequently issued a statement on August 17, 2017 reaffirming that there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States, despite media reports to the contrary and that the TMX Group was working with regulators to arrive at a solution that will clarify this matter, which would be communicated at a later time.

On February 8, 2018, following discussions with the Canadian Securities Administrators ("**CSA**") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties’ understanding of Canada’s regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers.

As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of our Common Shares to make and settle trades. In particular, our Common Shares would become highly illiquid as, until an alternative was implemented, investors would have no ability to effect a trade of our Common Shares through the facilities of a stock exchange.

In addition, on February 8, 2018 the CSA published a staff notice (Staff Notice 51-352) setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities, including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

Notwithstanding the position taken by the CSA in Staff Notice 51-352, the TSXV's position on investments by listed issuers in U.S.-based cannabis assets has remained unchanged. On October 16, 2017, the TSXV issued a bulletin noting that issuers with ongoing business activities that violate U.S. federal law regarding cannabis are not in compliance with the TSXV's listing requirements (the "**Requirements**"). These business activities may include (i) direct or indirect ownership of, or investment in, entities engaging in activities related to the cultivation, distribution or possession of cannabis in the U.S., (ii) commercial interests or arrangements with such entities, (iii) providing services or products specifically targeted to such entities, or (iv) commercial interests or arrangements with entities engaging in providing services or products to U.S. cannabis companies. The TSXV reminded issuers that, among other things, should the TSXV find that a listed issuer is engaging in activities contrary to the Requirements, the TSXV has the discretion to initiate a delisting review. In order to comply with the Requirements, we may be required to reorganize, restructure or divest our investment in DionyMed.

The Company's royalty investment in DionyMed may negatively impact its ability to raise capital

It is possible that our royalty investment in DionyMed, and the heightened scrutiny and potentially materially adverse consequences associated therewith, could negatively impact our ability to raise capital. The Company has historically accessed equity and debt financing from the public and prospectus-exempt (private placement) markets in Canada, and these traditional sources of capital may not be available to us if third-party sources of capital believe that our operations and prospects could be negatively impacted by our royalty investment in DionyMed. In such event, we believe that the extensive relationships held by our directors and executive officers with sources of private capital would allow us to raise equity and/or debt financing privately.

The Company's royalty investment in DionyMed is subject to applicable anti-money laundering laws and regulations

We are subject to a variety of laws and regulations domestically and in the United States that involve money laundering, financial recordkeeping and proceeds of crime, including the *Currency and Foreign Transactions Reporting Act of 1970* (commonly known as the *Bank Secrecy Act*), as amended by Title III of the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (USA PATRIOT Act), the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act (Canada)*, as amended and the rules and regulations thereunder, the *Criminal Code* (Canada) and any related or similar rules, regulations or guidelines, issued, administered or enforced by governmental authorities in the United States and Canada.

In February 2014, the Financial Crimes Enforcement Network ("**FCEN**") of the Treasury Department issued a memorandum providing instructions to banks seeking to provide services to cannabis-related businesses (the "**FCEN Memo**"). The FCEN Memo states that in some circumstances, it is permissible for banks to provide services to cannabis-related businesses without risking prosecution for violation of federal money laundering laws. It refers to supplementary guidance that Deputy Attorney General Cole issued to federal prosecutors relating to the prosecution of money laundering offenses predicated on cannabis-related violations of the *United States Controlled Substances Act*. It is unclear at this time whether the current administration will follow the guidelines of the FCEN Memo.

In the event that our royalty investment in DionyMed, or any royalty or buyout payments received in connection therewith, were found to be in violation of money laundering legislation or otherwise, such payments may be viewed as proceeds of crime under one or more of the statutes noted above or any other applicable legislation. This could restrict or otherwise jeopardize our ability to declare or pay dividends, effect other distributions or subsequently repatriate such funds back to Canada. Furthermore, while we have no current intention to declare or pay dividends on our Common Shares in the foreseeable future, in the event that a determination was made that our royalty investment in DionyMed (or any future royalty investments in the United States) could reasonably be shown to constitute proceeds of crime, we may decide or be required to suspend declaring or paying dividends without advance notice and for an indefinite period of time.

Volatility of Share Price

Securities markets throughout the world are cyclical and, over time, tend to undergo high levels of price and volume volatility. A publicly traded company will not necessarily trade at values determined by reference to the underlying value of its business. The prices at which the Company’s listed securities will trade cannot be predicted. The market price of the Company’s listed securities could be subject to significant fluctuations in response to variations in quarterly and annual operating results, the results of any public announcements the Company makes, general economic conditions, and other factors. Increased levels of volatility and resulting market turmoil may adversely impact the price of the Company’s listed securities. If as the Company expects, the Company is required to access capital markets to carry out its development objectives, the state of domestic and international capital markets and other financial systems could affect the Company’s access to, and cost of, capital. Such capital may not be available on terms acceptable to the Company or at all, and this could have a material adverse impact on the Company’s business, financial condition, results of operations or prospects and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern.

Financing Risks

The Company does not have any history of significant earnings and due to the nature of the Company's business, there can be no assurance that the Company will be profitable. While the Company may generate additional working capital through equity or debt offerings or through the receipt of royalty payments from the Company's investee companies, there is no assurance that such funds will be sufficient to facilitate the development of the Company's business as currently planned or, in the case of equity financings, whether such funds will be available on terms acceptable to us or at all.

Outstanding Debt

Certain features of the Company’s outstanding debt could adversely affect the Company’s ability to raise additional capital, fund operations or pay dividends, could expose the Company to interest rate risks or limit the Company’s ability to react to changes in the economy and its industry, or could prevent the Company from meeting certain of its business objectives. In addition, any conversion of interest or principal on the Company’s outstanding debt into common shares of the Company will dilute the interests of existing shareholders.

Dilution

The Company anticipates that it will be required to conduct additional equity financings in order to finance additional royalty purchases and develop the Company’s business as currently planned. Any further issuance of equity shares pursuant to such equity financings will dilute the interests of existing shareholders, and existing shareholders will have no pre-emptive rights in connection with any such future issuances.

Early Stage of Development

The Company is an early stage company. There will be limited financial, operational and other information available with which to evaluate the Company’s prospects. There can be no assurance that the Company's operations will be profitable in the future or will generate sufficient cash flow to satisfy the working capital requirements. In addition, as an early stage company the Company may not yet have all of the skills or personnel necessary to properly analyze and value royalty opportunities.

Ability to Negotiate Additional Royalty Purchases

A key element of the Company's growth strategy involves purchasing additional royalties from new investee companies. The Company's ability to identify investee companies and acquire additional royalties is not guaranteed. Achieving the benefits of future investments will depend in part on successfully identifying and capturing such opportunities in a timely and efficient manner and in structuring such arrangements to ensure a stable and growing stream of revenues.

Ability to Manage Future Growth

The ability to achieve desired growth will depend on the Company’s ability to identify, evaluate and successfully negotiate royalty purchases from investee companies. Achieving this objective in a cost-effective manner will be a product of the Company’s sourcing capabilities, the management of the investment process, the ability to provide capital on terms that are attractive to potential investee companies and the Company's access to financing on acceptable terms. As the Company grows, the Company will also be required to hire, train, supervise and manage new employees. Failure to effectively manage any future growth or to successfully negotiate suitable royalty purchases could have a material adverse effect on the Company's business, financial condition, and results of operations or prospects and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern.

Exercise of Buyout Option

Some of the royalty purchase agreements with investee companies contain or will contain buyout options which allow investee companies to repurchase royalties for a set price. While the buyout provision is designed to produce enhanced returns, if the Company has miscalculated the value of a buyout option relative to the ongoing value of a lost royalty stream, the return on an investment may be lower than expected, which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations or pay dividends. In addition, if the lost royalty stream is not replaced with a new royalty stream on a timely basis, there will be a reduction in the Company's revenues in the financial periods following the exercise of the buyout which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations or pay dividends.

Risks Facing Investee Companies

As previously noted, the financial condition and results of operations will be affected by the performance of the SMEs in which the Company invests capital through royalty purchases. Each investee company will also be subject to risks which will affect their financial condition. Given that the Company is not privy to all aspects of the businesses in which we will make future investments, it is impossible to predict exactly what risks investee companies will face. Nonetheless, the Company expects that typical risks which SMEs might face include the following:

- Investee companies may need to raise capital through equity or debt financing. Such equity or debt may impair the ability of the investee companies to finance their future operations and capital needs. Flexibility to respond to changing business and economic conditions and to business opportunities may thereby be limited.
- The success of the Company's investee companies may depend on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on an investee company.
- Investee companies may require additional working capital to carry out their business activities and to expand their businesses. If such working capital is not available, the financial performance and development of the businesses of the investee companies may be adversely affected.
- Damage to the reputation of the brands of the investee companies could negatively impact consumer opinion of those companies or their related products and services, which could have an adverse effect on their businesses.
- Investee companies may face intense competition, including competition from companies with greater financial and other resources, more extensive development, manufacturing, marketing, and other capabilities. There can be no assurance that the investee companies will be able to successfully compete against their competitors or that such competition will not have a material adverse effect on their businesses.
- Investee companies may experience reduced revenues with the loss of a customer representing a high percentage of their monthly revenues.
- Investee companies may experience reduced revenues due to an inability to meet regulatory requirements or may experience losses of revenues due to unforeseeable changes in regulations imposed by various levels of government.
- Investee companies may rely on government or other subsidy programs for revenue or profit generation. Changes or elimination of such programs may have an adverse effect on the company.
- Investee companies may derive some of their revenues from non-Canadian sources and may experience negative financial results based on foreign exchange losses.

Impact of Regulation and Regulatory Changes

The Company and investees are subject to a variety of laws, regulations and guidelines in the jurisdictions in which the Company and investees operate and may become subject to additional laws, regulations and guidelines in the future in such jurisdictions. The financial and managerial resources necessary to ensure such compliance could escalate significantly in the future which could have a material adverse effect on the business, resources, financial condition, results of operations and cash flow of the Company and the investee companies and could threaten the Company's ability to satisfy its obligations, pay dividends or continue as a going concern. Such laws and regulations are also subject to change and it is impossible for us to predict the cost or impact of changes to such laws and regulations on its future operations.

Foreign Account Tax Compliance

The *Foreign Account Tax Compliance Act* ("**FATCA**") is U.S. tax legislation that came into effect on July 1, 2014. FATCA generally imposes certain U.S. reporting and information gathering requirements, as well as a 30 percent withholding tax applied to certain payments received by a "foreign financial institution".

Specifically, with respect to a Canadian entity, FATCA (as modified by the intergovernmental agreement between Canada and the United States, the "**IGA**", and the *Income Tax Act* (Canada) and the regulations thereunder (the "**Tax Act**")) requires a "reporting Canadian financial institution" to, amongst other things: (a) report to the Canada Revenue Agency (the "**CRA**") certain information regarding its U.S. holders and certain U.S. persons that indirectly hold interests in such reporting Canadian financial institution (other than equity and debt interests that are regularly traded on an established securities market); and (b) comply with certain reporting, verification, due diligence and other procedures established by the U.S. Internal Revenue Service (the "**IRS**") and/or the CRA.

Further, unless a reporting Canadian financial institution complies with the FATCA reporting requirements (as modified by the IGA), it may be subject to 30 percent tax on certain payments it receives from U.S. withholding agents.

A Canadian entity that is not a financial institution generally will be a non-financial foreign entity ("**NFFE**"). An NFFE does not have registration requirements on the IRS portal, but may face a similar 30 percent FATCA withholding on certain payments unless it provides certain documentation to applicable withholding agents.

Pursuant to the IGA, the Tax Act and published CRA guidance, we may be a reporting Canadian financial institution. We will continuously monitor any future guidance from the IRS and/or the CRA and will comply with any future changes in guidance as they relate to us to ensure that we are fully compliant with any differing or additional requirements that such guidance may dictate.

Tax Matters

The validity and measurement of tax benefits associated with various tax positions taken or expected to be taken in our tax filings are a matter of tax law and are subject to interpretation. Tax laws are complex and their interpretation requires significant judgment. The provision for income taxes reflects management’s interpretation of the relevant tax laws and its best estimate of income tax implications of the transactions and events during the period. There can be a risk that tax authorities could differ in their interpretation of the relevant laws and could assert that tax positions taken by the Company give rise to a need for reassessment, including reassessment under specific or general anti-avoidance rules.

The assessment of additional taxes, interest and penalties or damage to the Company’s reputation could be materially adverse to our future results of operations or financial position.

Under the liability method of accounting for income taxes, deferred tax assets are recognized for the carry forward of unused tax losses and tax credits, as well as amounts that have already been recorded in the financial statements, but will not result in deductible amounts in determining taxable income until future periods. Deferred tax assets are recognized only to the extent that it is probable that taxable profit will be available against which the future tax deductions and unused tax losses can be utilized.

At the end of each reporting period, we must assess the value of our deferred tax assets. The determination of our deferred tax assets is dependent upon projections of future taxable profits. Our projections require significant judgments and estimates about future events, including global economic conditions and the future profitability of the business. If the profitability of our business is lower than our projections or if our outlook diminishes significantly, we may be required to reduce the value of our deferred tax assets. Any change to our deferred tax assets could have a material adverse impact on our future results of operations or financial position.

From time to time, there are changes to statutory corporate income tax rates. These changes require the Company to review and re-measure our deferred tax assets and liabilities as of the date of substantive enactment. Any future tax rate decreases could result in a reduction in the carrying value of the deferred tax asset and a corresponding income tax expense at the time of substantive enactment of a rate reduction.

PFIC Status for U.S. Investors

Generally, unfavourable rules may apply to U.S. investors who own and dispose of securities of a PFIC for any year during which the U.S. investor holds such securities (regardless of whether the company continues to be a PFIC), including, without limitation, increased tax liabilities under U.S. tax laws and regulations and additional reporting requirements. Specifically, if a non-U.S. entity is classified as a PFIC, any gain on disposition of securities of a PFIC and any "excess distribution" received by a U.S. holder would be: (i) deemed to have been earned rateably over the period such holder owns such securities: (ii) taxed at ordinary income tax rates; and (iii) subject to an interest charge for the deemed deferral in payment of the tax.

A non-U.S. entity will be a PFIC for any taxable year in which either (i) at least 75% of its gross income is passive income, or (ii) at least 50% of the value (determined on the basis of a quarterly average) of its assets is attributable to assets that produce or are held for the production of passive income.

The Company has not made, and does not expect to make, a determination as to whether it is or has ever been a PFIC. Consequently, there can be no assurance that the Company has never been a PFIC or will not become a PFIC for any tax year during which U.S. investors hold securities of the Company.

U.S. investors are urged to consult their own tax advisors regarding the possible application of the PFIC rules and the consequences of holding securities of the Company if the Company is treated as a PFIC for any taxable year in which a U.S. investor holds its securities.

Competition from Other Investment Companies

The Company competes with a number of private equity funds and mezzanine funds, investment banks, equity and non-equity based investment funds and other sources of financing, including the public capital markets. Some of the Company’s competitors are substantially larger and have considerably greater financial resources than the Company does. Competitors may have a lower cost of funds and many have access to funding sources and unique structures that are not available to the Company. In addition, some of the competitors may have higher risk tolerances or different risk assessments, which could allow them to consider a wider variety of investments than the Company. Pressure from the Company’s competitors may have a material adverse effect on the Company’s business, financial condition, results of operations or prospects and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern.

Impact of Quarterly and Annual Financial Reporting

There can be no assurance that the Company will be profitable on a quarterly or annual basis. The business strategies may not be successful. As a reporting company, the Company will be required to report financial results on an annual and quarterly basis. If the Company’s business is not profitable, the market price of the Company’s shares may decline.

Payment of Dividends

There is uncertainty with respect to future dividend payments by Flow Capital and the level thereof. Holders of the Company’s common shares do not have a right to dividends on such shares unless declared by the Board of Directors of the Company. The declaration of dividends is at the discretion of the Board of Directors of the Company, even if the Company has sufficient funds, net of its liabilities, to pay such dividends, and the declaration of any dividend will depend on the Company’s financial results, cash requirements, future prospects and other factors deemed relevant by the Board of Directors of the Company.

Currency Fluctuations

Certain of the Company’s royalties may be paid and received in United States dollars and potentially other foreign currencies. The Canadian dollar relative to the United States dollar or other foreign currencies is subject to fluctuations. Failure to adequately manage foreign exchange risk could therefore adversely affect the Company's business, financial condition, results of operations or prospects and could threaten the Company’s ability satisfy its obligations or pay dividends.

Reliance on Key Personnel

The Company's success will depend on the abilities, experience, efforts and industry knowledge of the Company’s senior management and other key employees. The long-term loss of the services of any key personnel for any reason could have a material adverse effect on business, financial condition, results of operations or prospects and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern. In addition, the growth plans may require additional employees, increase the demand on management and produce risks in both productivity and retention levels. The Company may not be able to attract and retain additional qualified management and employees as needed in the future. There can be no assurance that the Company will be able to effectively manage growth, and any failure to do so could have a material adverse effect on the Company’s business, financial condition, results of operations or prospects.

Conflicts of Interest

Certain of the Company’s directors and officers will also serve as directors and/or officers of other companies. Consequently, there exists the possibility for such directors and officers to be in a position of conflict. Any decision made by any of such directors and officers will be made in accordance with their duties and obligations to deal fairly and in good faith with a view to the best interests of the Company and its shareholders. In addition, each of the directors is required to declare and refrain from voting on any matter in which such director may have a conflict of interest in accordance with the procedures set forth in applicable corporate legislation and under other applicable laws and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern.

Effect of General Economic and Political Conditions

The Company's business, and the business of each of its investee companies, is subject to the impact of changes in national or North American economic conditions including, but not limited to, recessionary or inflationary trends, equity market conditions, consumer credit availability, interest rates, consumers' disposable income and spending levels, job security and unemployment, and overall consumer confidence. These economic conditions may be further affected by political events throughout the world that cause disruptions in the financial markets, either directly or indirectly. Adverse economic and political developments could have a material adverse effect on the business, financial condition, results of operations or prospects of the Company and its investee companies and could threaten the Company’s ability to satisfy its obligations, pay dividends or continue as a going concern.

Sale of Common Shares by Existing Shareholders

If the Company’s shareholders sell substantial amounts of the Company’s shares in the public market, the market price of the Company’s shares may decline.

Legal Proceedings

In the normal course of business, the Company may be subject to lawsuits, claims, regulatory proceedings, and litigation for amounts not covered by the Company's liability insurance. Some of these proceedings could result in significant costs, whether or not resolved in the Company's favour.

Analyst Reports

The trading price of the Company's common shares will be influenced by the research and other reports that industry or securities analysts publish about it, its business, its market or its competitors. If any of the analysts who cover the Company changes his or her recommendation regarding the Company's stock adversely, or provides more favourable relative recommendations about the Company's competitors, the Company's stock price would likely decline. If any analyst who covers the Company were to cease such coverage or fail to regularly publish reports on the Company, the Company could lose visibility in the financial markets, which in turn could cause the stock price or trading volume to decline.

Accounting Policies and Methods

The accounting policies and methods the Company utilizes determine how the Company reports its financial condition and results of operations, and they may require management to make estimates or rely on assumptions about matters that are inherently uncertain. Such estimates and assumptions may require revisions, and these changes may materially adversely affect the Company's business, financial condition, and results of operations or prospects. The Company has elected to adopt IFRS 9 as the Company believes that classification and measurement guidelines under IFRS 9 are more aligned with the Company's business model and the cash flow characteristics of the Company's financial assets. The most significant impact of the adoption of IFRS 9 has resulted in royalty agreements, loans receivable, acquired and accrued interest and royalty payments receivables being classified as subsequently measured at fair value through profit or loss rather than amortized cost. This change in classification primarily reflects the characteristics of the cash flows generated by these financial assets which are not solely made up of principal and interest. Changes in the fair value of royalty agreements and promissory notes are recognized in consolidated comprehensive income (loss) reflecting market conditions. As a result of the adoption of IFRS 9, the Company may have to amend the valuation of its investment in an investee company if the value of such investee company declines, which could have a material adverse effect on the Company's business, financial condition, results of operations or prospects.

APPROVAL

The Board of Directors of the Company approved this MD&A on February 11, 2019.

ADDITIONAL INFORMATION

A copy of this MD&A, as well as additional information concerning the Company, is available on SEDAR at www.sedar.com.

DEFINITION OF NON-IFRS MEASURES

The following key performance indicators are not measurements in accordance with IFRS and should not be considered as an alternative or replacement of net earnings or any other measure of performance under IFRS. These non-IFRS measures do not have any standardized meaning and may not be comparable to similar measures presented by other issuers. These non-IFRS measures will be found throughout this report and the definitions can be found below.

EBITDA refers to earnings determined in accordance with IFRS, before depreciation and amortization, net of gain or loss on disposal of capital assets, interest expense and income tax expense. EBITDA is used by Management and many investors to determine the ability of an issuer to generate cash from operations. Management believes EBITDA is a useful supplemental measure from which to determine the Company's ability to generate cash available for royalty investments, working capital, income taxes and dividends.

Adjusted EBITDA refers to EBITDA excluding items that are non-recurring in nature or will not have a cash impact in the immediate future. "Adjusted EBITDA" is calculated by adding back non-recurring charges and significant long-term unrealized gains or losses to EBITDA. Management deems non-recurring charges to be unusual and/or infrequent charges that the Company incurs outside of its common day-to-day operations. Management considers adjustments to fair value, unrealized foreign exchange differences on royalty agreements acquired and share-based payment expense as long term, unrealized, gains and losses and therefore included as an adjustment when determining Adjusted EBITDA. Adding back these adjustments allows management to assess EBITDA from ongoing operations. The following table reconciles EBITDA measures to IFRS measures reported in the consolidated statements of comprehensive income (loss) for the periods ended as indicated:

	Three months ended December 31, 2018	Three months ended December 31, 2017	Year ended December 31, 2018	Year ended December 31, 2017
Profit (Loss) before income taxes	**$ (3,278,795)**	**$ (4,517,651)**	**$ 2,052,494**	**$ (15,333,908)**
Depreciation and amortization	433,119	13,532	1,022,606	41,483
Financing expense	652,990	450,379	2,240,781	1,767,313
EBITDA (EBITDA Loss)	**(2,192,686)**	**(4,053,740)**	**5,315,881**	**(13,525,112)**
Adjustments:				
Bargain purchase gain	-	-	(5,459,147)	-
Unrealized foreign exchange (gain)/loss	(597,482)	(66,080)	(703,024)	1,802,404
Adjustments to fair value	(6,652,985)	3,963,288	(14,017,372)	9,053,879
Unrealized gain from investment derecognized	-	-	-	(922,284)
Realized loss from investments written-off	9,827,431	155,000	17,932,127	7,449,269
Share-based consultancy fee income	-	-	(1,390,906)	-
Share-based payment expense	27,086	66,845	195,462	291,913
Adjusted EBITDA	**$ 411,364**	**$ 65,313**	**$ 1,873,021**	**$ 4,150,069**

Free Cash Flow refers to the amount of cash generated from operating activities that is available to the Company. "Free Cash Flow" is calculated by deducting from net cash flows generated by or used for operating activities as presented in the consolidated statements of cash flows, the interest amount in financing expense, the movement in income tax payable during the period, adjusting for new investments, redemptions and royalty buyouts for investments at fair value and proceeds and realized gains from sale of equity investments. The following table reconciles the Free Cash Flow measure to IFRS measures reported in the audited consolidated financial statements:

	Three months ended Dec. 31, 2018	Three months ended Dec. 31, 2017	Year ended Dec. 31, 2018	Year ended Dec. 31, 2017
Net cash generated by (used in) operating activities	**$ 1,160,323**	**$ (186,716)**	**$ (1,588,819)**	**$ 2,935,022**
Investments at fair value – new investments	1,153,390	829,665	6,899,497	5,048,298
Investments at fair value – royalty buyouts	(660,455)	(7,703)	(778,115)	(2,232,758)
Investments at fair value – redemptions	(477,470)	-	(1,619,508)	4,050
Investments at fair value – proceeds from sale of equity investments	(76,320)	-	(190,672)	-
Gain recognized on sale of equity investments	-	-	27,027	-
Debenture interest paid	(869,806)	(690,000)	(1,742,282)	(1,380,000)
Interest payable – movement in period	439,746	345,000	3,781	-
Income tax recoverable / payable - movement in period	34,026	410,804	(334,289)	63,681
Free Cash Flow	**$ 703,434**	**$ 701,050**	**$ 676,620**	**$ 4,438,293**

Weighted average royalty rate represents the applicable royalty rate, stipulated in the royalty agreement, weighted by the investment amount under each agreement over the aggregate investments. Management uses this to assess the portfolio compared to the pre-determined targets. The calculation is carried out on a transaction by transaction basis and weighted by the investment amount over the aggregate investments.

Cash returned from royalty payments and royalty buyouts represents the actual cash received under all royalty agreements, promissory notes and equity investments through royalty payment income, interest income on the promissory notes, realized gains on royalty buyouts, principal payments and redemptions on the promissory notes, capital returned from royalty buyouts and contract buydowns and capital returned from the sale of equity investments. The following table reconciles the Cash returned from royalty payments and royalty buyouts as of December 31, 2018 and December 31, 2017 respectively to IFRS measures reported in the financial statements for the periods:

Description	Total cash returned from royalty payments and royalty buyouts since inception	Year ended December 31, 2018	Year ended December 31, 2017	Since inception to the year ended December 31, 2016
Royalty payment income	27,831,230	4,349,157	4,522,314	18,959,759
Interest income on promissory notes and loans	910,410	238,037	170,595	501,778
Realized gain on royalty buyouts	8,357,945	807,846	3,000,000	4,550,099
Principal payments on promissory notes	324,238	-	-	324,238
Redemptions on promissory notes	2,735,296	1,524,920	-	1,210,376
Capital returned from royalty buyouts	11,537,709	778,115	2,000,000	8,759,594
Capital returned from royalty buydowns and recovery	1,694,346	94,588	282,758	1,317,000
Proceeds received on sale of shares	190,672	190,672	-	-
Royalty and interest added and recognized in investment balance	(292,838)	-	-	(292,838)
Recovery from investment written-off	50,000	-	50,000	-
Foreign exchange realized gains on royalty buyouts	710,139	-	-	710,139
Royalty earned and converted to equity	(205,000)	-	-	-
Accounts receivable written-off	(1,506,959)	-	-	-
Accounts receivable balance	(162,005)	-	-	-
Prepaid royalty payment and interest income	-	(251,872)	251,872	-
Fair value of accounts receivable written down	(524,649)	-	-	-

Total	**51,650,534**

Description	Total cash returned from royalty payments and royalty buyouts since inception	Year ended December 31, 2017	Since inception to the year ended December 31, 2016
Royalty payment income	23,482,073	4,522,314	18,959,759
Interest income on promissory notes	672,373	170,595	501,778
Realized gain on royalty buyouts	7,550,099	3,000,000	4,550,099
Principal payments on promissory notes	324,238	-	324,238
Redemptions on promissory notes	1,210,376	-	1,210,376
Capital returned from royalty buyouts	10,759,594	2,000,000	8,759,594
Capital returned from royalty buydowns	1,549,758	232,758	1,317,000
Recovery of investment written-off	50,000	50,000	-
Royalty and interest added and recognized in investment balance	(292,838)	-	(292,838)
Foreign exchange realized gains and (losses)	710,139	-	710,139
Royalty earned and converted to equity	(205,000)	(205,000)	-
Accounts receivable balance	(95,050)	(95,050)	-
Prepaid royalty payment income and interest income	251,872	251,872	
Fair value of accounts receivable written down	(1,096,648)	(1,096,648)	-
Accounts receivable written-off	(959,634)	(959,634)	-
Total	**43,911,352**	-	

For the analysis of the amounts shown in the above table from inception to the year ended December 31, 2016 and year ended December 31, 2017, please refer to the MD&A for the year ended December 31, 2017 dated February 15, 2018.