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, 2019. The information in this MD&A is current as of February 13, 2020 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2019 and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2018.

The Company's audited consolidated financial statements and notes thereto for the year ended December 31, 2019 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, 2019, which are available on SEDAR at www.sedar.com.

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FINANCING THROUGH FLOW PRIORITY RETURN FUND LP

On July 19, 2019, the Company closed a $10,000,000 financing through a limited partnership called Flow Priority Return Fund LP (the "**Priority Return Fund**"), which is considered a subsidiary of Flow Capital for the purposes of the consolidated financial statements. A collection of institutional and high net worth investors (the "Limited Partners") invested $10 million into the Priority Return Fund. Under the limited partnership agreement dated July 19, 2019 (the "LPA"), in exchange for the $10,000,000 investment, the Limited Partners were granted 10,000,000 of Class A units and 10,000,000 of Class D units.

Under the LPA, Class A units will receive i) an amount equal to the lesser of 1% per month of the outstanding amount under the Class A units or the royalty payments received by the Company from royalty agreements specified under the LPA (the "Underlying Royalty Contracts") and ii) all cash buyout payments received by Flow Capital from the Underlying Royalty Contracts up to a maximum of $10,000,000. After all Class A units have been redeemed, Class D units will receive up to $1,000,000 from any further buyout payments from the Underlying Royalty Contracts. If by the third anniversary of the establishment of the Priority Return Fund, there has been less than $5 million in redemptions, the Limited Partners will receive an enhanced return equal to 20% of the net adjusted royalty payments on a monthly basis from the Underlying Royalty Contracts until such time as there have been $5 million in redemptions. The Priority Return Fund does not have any additional obligation or liability to the Limited Partners beyond the Underlying Royalty Contracts and as a result, the Class A and Class D units are subject to asset-specific performance risk.

SALE OF LOGIQ GLOBAL PARTNERS BUSINESS

On April 15, 2019, Flow Capital announced the closing of the sale of the LOGiQ Global Partners business to Ninepoint Financial Group Inc. ("**Ninepoint**") for total consideration of $12,375,000 (the "**Ninepoint Transaction**"). The purchase price is subject to an adjustment of up to $1,500,000 upward or downward in the event that the revenue of the Global Partners business for the 2019 fiscal year increases or decreases, as the case may be, by more than 5% compared to revenue for the 2018 fiscal year (the "**Purchase Price Adjustment**"). Based on the most recent information for the revenue of the Global Partners business for the 2019 fiscal year, the fair value of the Purchase Price Adjustment was zero.

Under the terms of the Ninepoint Transaction, Flow Capital has received:

- A $1,375,000 cash payment;
- A note in the principal amount of $9,500,000 bearing interest at an annual rate of 10% ("First Note"), that was repaid on December 2, 2019; and
- A note in the principal amount of $1,500,000 bearing interest at an annual rate of 10%, repayable on the later of: (i) the date that is two months following the date on which the First Note is repaid; and (ii) three business days following the determination of the Purchase Price Adjustment described above. As the First Note is now repaid, payment of the second note is expected during the first quarter of 2019.

The Ninepoint Transaction resulted in a gain of $536,616 to the Company. In addition, there was approximately $580,000 of working capital balances relating to the business that were realized as cash and remained with Flow Capital.

Prior to the Ninepoint Transaction, the LOGiQ Global Partners business was one of the two operating divisions run by the Company. This division was an institutional sales platform, providing pension funds, charities and endowment clients with access to leading institutional money managers from around the world. For the financial statements for the year ended December 31, 2019, the operations relating to the LOGiQ Global Partners business were classified as discontinued operations, in accordance with *IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.* The key operational results for the discontinued operation for the year ended December 31, 2019 were:

	Three months ended December 31, 2019	**Twelve months ended December 31, 2019**
Revenues	$2,939	$904,413
Total comprehensive income	2,939	366,813
Net cash generated from operating activities	51,743	983,321
Net cash generated from investing activities	-	1,245,000

For the purposes of this MD&A, the analysis focuses on the remaining continuing business.

GENERAL DESCRIPTION OF THE BUSINESS

Following the sale of the LOGiQ Global Partners business, Flow Capital operates one business, an investment operation. Flow Capital makes revenue-linked, venture debt and other cashflow-oriented investments in 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 companies looking to fuel expansion without the dilution of equity or restrictive covenants of conventional debt. Flow Capital also provides a range of advisory services to assist investees in fulfilling their growth objectives.

Flow Capital 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 or for venture debt in exchange for interest and principal payments. Flow Capital's diverse portfolio of cashflow-oriented investments in investees 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 Capital'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 shareholder is realized returns from equity and warrant positions. While Flow Capital does not typically 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 royalties, royalty buyouts or buydowns, interest and principal repayments.

In summary, Flow Capital creates shareholder value in three distinct ways:

- Stable, recurring revenues from a diverse portfolio of cashflow-oriented investments in emerging growth companies,
- Royalty buyouts or buydowns, and
- Realized returns from equity and warrants.

RESULTS OF OPERATIONS

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Revenues	$ 2,009,674	$ (1,796,550)	$ 4,026,370	$ 2,855,939
Profit/(Loss) for the period	(10,188,782)	(2,382,637)	(12,222,664)	3,037,266
EBITDA/EBITDA (Loss)(1)	826,490	(2,192,686)	1,160,087	5,315,881
Adjusted EBITDA(1)	470,236	411,364	4,182,635	1,873,021
Free Cash Flow(1)	823,017	703,434	2,974,898	676,620
Basic Earnings/(Loss) per share	(0.1296)	(0.0282)	(0.1472)	0.0579
Diluted Earnings/(Loss) per share	(0.1296)	(0.0282)	(0.1472)	0.0579
Book Value per outstanding share(2)	0.2266	0.3593	0.2266	0.3593
Weighted basic average number of shares outstanding	78,635,568	87,298,840	83,056,712	52,466,321
Weighted diluted average number of shares outstanding	96,812,290	109,186,393	104,213,107	66,944,650

(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, 2019

	Three months ended December 31, 2019	Three months ended December 31, 2018	Growth %
Royalty and loan payment income	$ 1,233,713	$ 1,209,263	2.0
Realized gain (loss) from sale of investments	6,117	(582,118)	101.1
Foreign exchange gain (loss)	(156,290)	649,676	(124.1)
Adjustments to fair value	1,953,109	6,652,985	(70.6)

Realized loss from investments written off	(1,210,527)	(9,827,430)	87.7
Consultancy and licence fee income	-	(354)	100.0
Other income (including other interest income)	183,552	101,428	81.0
Total revenue	**2,009,674**	**(1,796,550)**	211.9

Revenues were $2,009,674 for the three-month period ended December 31, 2019 compared to $(1,796,550) for the three-month period ended December 31, 2018. Royalty and loan payment income for the three-month period ended December 31, 2019 was $1,233,713 representing a 2.0% increase from the three-month period ended December 31, 2018. Of the $1,233,713, $457,942 was earned during the three-month period ended December 31, 2019 from new investments acquired in the last twelve months and $158,097 related to higher royalty payment income due to growth in revenues of the investee and investees resuming to pay a royalty. These increases were offset by a reduction of $590,283 due to royalty buyouts in the last twelve months and four investments not accruing any income due to non-payment.

Realized gain from sale of investments was $6,117 for the three-month period ended December 31, 2019 compared to a realized loss of $(582,118) for the three-month period ended December 31, 2018. The realized gain of $6,117 was in respect of gains on the sale of shares in mCloud Technologies Corp. ("mCloud"), offset by losses on the sale of shares in Lattice Biologics Ltd. ("Lattice") and Pulse Oil Corp. ("Pulse"). The realized loss of $(582,118) for the three-month period ended December 31, 2018 was in respect of losses on the sale of shares in Lattice, offset by a small gain on the sale of shares in Boardwalktech Software Corp. ("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 three-month period ended December 31, 2019, revenues were impacted by IFRS 9 net non-cash items of $586,292 compared to $(2,524,769) for the three-month period ended December 31, 2018. The non-cash amount of $586,292 was made up of $1,953,109 for adjustments to fair value, $(1,210,527) for an investment written-off and $(156,290) for foreign exchange loss. Included in the adjustments to fair value was $(781,642) for the decrease in the fair value of the shares held in investee companies, $1,210,527 fair value adjustment reversal due to the investment written-off and $1,524,224 for fair value adjustments on various royalty and promissory notes investments in the portfolio.

For the three-month period ended December 31, 2019, other income was $183,552, which related to interest earned on short-term investments of available cash. For the three-month period ended December 31, 2018, other income was $101,428, of which $28,748 related to interest earned on short-term investments of available cash, $22,675 related to gains realized on the repurchase of the debentures under a normal course issuer bid ("NCIB"), and $49,999 related to the amortization of deferred fee income.

Year ended December 31, 2019

	Year ended December 31, 2019	Year ended December 31, 2018	Growth %
Royalty and loan payment income	$ 5,576,727	$ 4,597,550	21.3
Realized gain (loss) from sale of investments	(788,085)	(282,475)	179.0
Foreign exchange gain (loss)	(661,873)	788,356	(184.0)
Adjustments to fair value	4,257,948	14,017,372	(69.6)
Realized loss from investments written off	(5,457,902)	(17,932,127)	67.9
Consultancy and licence fee income	-	1,421,692	N/A
Other income (including other interest income)	1,099,555	245,571	347.8
Total revenue	**4,026,370**	**2,855,939**	41.0

Revenues were $4,026,370 for the year ended December 31, 2019 compared to $2,855,939 for the year ended December 31, 2018. Royalty and loan payment income for the year ended December 31, 2019 was $5,576,727 representing a 21.3% increase from the year ended December 31, 2018. The increase was due to royalty and loan payment income of $1,173,570 earned during the year ended December 31, 2019 from new investments acquired in the last twelve months and $1,107,148 of royalty payment income earned from existing investments due to growth and investees resuming making a payment but this was offset by a reduction in payments of $1,269,155 due to royalty buyouts, and five investments not accruing any income due to non-payment.

Realized loss from sale of investments was $(788,085) for the year ended December 31, 2019 compared to a realized loss of $(282,475) for the year ended December 31, 2018. Of the $(788,085), $993,225 was a realized gain on the buyout of the Factor75, LLC. ("Factor75") royalty investment, $313,109 was in respect of realized gains from the sale of shares in Inner Spirit Holdings Ltd. ("Inner Spirit") and mCloud offset by $(2,094,419) of losses on the sale of shares

in Lattice and Pulse. For the year ended December 31, 2018, the realized loss of $(282,475) was in respect of gains of $796,140 on the buyouts of the investments for FIXT Wireless, Boardwalktech and Frequentz offset by realized losses of $(1,105,642) on the sale of shares in 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 year ended December 31, 2019, revenues were impacted by IFRS 9 net non-cash items of $(1,861,827) compared to $(3,126,396) for the year ended December 31, 2018. The non-cash amount of $(1,861,827) was made up of $4,257,948 for adjustments to fair value, $(5,457,902) realized loss on investments written-off and $(661,873) for foreign exchange loss. Included in the adjustments to fair value was $1,091,878 relating to the equity investment portfolio, $5,352,950 for a reversal of the fair value adjustment following the write off of Solar Brokers Canada Corp. and Green Lion Eco Group Corp, ("Solar Brokers"), Cherubim Builders Group ("Cherubim") and DionyMed Brands Inc. ("DionyMed") investments during the period, reversal of $(993,225) fair value adjustment for the Factor75 buyout and $(1,193,655) for fair value adjustments made during the period on various royalty and loan investments in the portfolio.

For the year ended December 31, 2019, other income was $1,099,555, of which $336,217 related to interest earned on short-term investments of available cash, $13,338 related to gains realized on the repurchase of the debenture under a normal course issuer bid, and $750,000 related to the amortization of deferred income. For the year ended December 31, 2018, other income was $245,571, of which related to interest of $91,095 earned on short-term investment of available cash, $29,500 related to gains realized on the repurchase of the debenture under a NCIB, $11,706 related to fee income earned from joint ventures, and $113,187 related to the amortization of deferred income.

Operating expense analysis

Total operating expenses were $1,226,454 and $4,107,095 for the three-month period and year ended December 31, 2019 compared to $753,223 and $4,014,709 for the three-month period and year ended December 31, 2018. Operating expenses for the three-month period ended December 31, 2019 were $473,231 higher than the three-month period ended December 31, 2018 due to increases of $293,750, $119,417 and $86,498 in restructuring costs, salary costs and professional fees, respectively, for the three-months ended December 31, 2019. Operating expenses for the year ended December 31, 2019 were $92,386 higher than the year ended December 31, 2018 due to increases of $231,895 in professional fees, $304,250 in salary costs, and $65,278 in insurance costs for the year December 31, 2019 offset by higher restructuring costs of $412,500 and $96,200 in withholding taxes incurred in the year ended December 31, 2018.

Salaries, benefits, and other staffing costs were $367,033 and $1,287,269 for the three-month period and year ended December 31, 2019, compared to $221,469 and $979,430 for the three-month period and year ended December 31, 2018. Salaries, benefits, and other staffing costs for the three-month period ended December 31, 2019 compared to the three month period ended December 31, 2018, were higher by $86,370 due to the additional cost of the new CEO appointed in December 2018, executive chairman receiving increased director's fees starting from August 1, 2019 and the impact of two additional employees during the three months ended December 30, 2019. Salaries, benefits, and other staffing costs for the year ended December 31, 2019 compared to the year ended December 31, 2018, were higher by $307,839 due to the additional cost of the new CEO appointed in December 2018, the reinstatement of an executive's salary effective July 1, 2018, executive chairman receiving increased director's fees starting from August 1, 2019 and the hiring of two additional employees during 2019.

Restructuring costs were $293,750 for the year ended December 31, 2019, compared to $706,250 for the year ended December 31, 2018. As part of a restructuring within the Company, a $293,750 provision was set up in the three-months period ended December 31, 2019. Restructuring costs incurred in 2018 relate to a contract payment for the former CEO and the termination of the employment agreement for a managing director of the Company.

Share-based compensation was $34,793 and $180,306 for the three-month period and year ended December 31, 2019 compared to $27,086 and $195,462 for the three-month period year ended December 31, 2018. The small reductions reflect the expense impact of the options granted during 2018 offset by the reduced expense for the options forfeited in 2018 and expired and forfeited during the year ended December 31, 2019.

Depreciation was $40,331 and $161,606 for the three-month period and year ended December 31, 2019 compared to $24,071 and $98,975 for the three-month period and year ended December 31, 2018. The higher expense for the three-month period and year ended December 31, 2019 was due to the amortization of the right-of-use asset on the Company's office required following the adoption of IFRS 16 effective from January 1, 2019.

Professional fees were $307,110 and $1,550,388 for the three-month period and year ended December 31, 2019 compared to $328,049 and $1,319,706 for the three-month period and year ended December 31, 2018. Professional fees for the three-month period ended December 31, 2019 compared to the three-month period ended December 31, 2018 were lower by $20,939. Professional fees and accounting and audit fees during the three-month period ended December 31, 2018 were higher due to year-end related accounting and audit fees. Professional fees for the year

ended December 31, 2019 compared to the year ended December 31, 2018 were higher by $230,682 mainly due to $231,895 of expenses incurred in pursuing legal actions on distressed investments.

Office and general administrative expenses were $183,437 and $633,776 for the three-month period and year ended December 31, 2019 compared to $152,548 and $714,886 for the three-month period and year ended December 31, 2018. Office and general administrative expenses for the three-month period ended December 31, 2019 were higher by $30,889 due to less travel and entertainment during the quarter and recruitment fees incurred during the three-month period ended December 31, 2018. Office and general administrative expenses for the year ended December 31, 2019 were $81,110 lower than the year ended December 31, 2018 due to lower withholding tax expenses of $96,200 and lower travel expenses of $90,955, offset by increases in insurance cost of $65,278, increased interest charge related to the lease liability of $40,654, and increased advertising and marketing costs of $69,350 in the year ended December 31, 2019 as compared to the year ended December 31, 2018.

Free cash flow

Free Cash Flow(1) was $823,017 and $2,974,898 for the three-month and year ended December 31, 2019 compared to $703,434 and $676,620 for the three-month and year ended December 31, 2018. Free Cash Flow(2) for the year ended December 31, 2019 was $2,298,278 higher compared to the year ended December 31, 2018 due to $993,225 gain on the Factor75 buyout and $982,110 of Free Cash Flow(2) generated from higher royalty payments the year ended December 31, 2019.

Analysis for further items included in the Results of Operations

Financing expense was $786,792 and $3,028,774 for the three-month period and year ended December 31, 2019 compared to $652,990 and $2,240,781 for the three-month period and year ended December 31, 2018. Financing expense for the three-month period ended December 31, 2019 was $133,802 higher compared to the three-month period ended December 31, 2018 due to interest expense of $241,163 from the new $10,000,000 redeemable debt held by the Priority Return Fund, by lower Series A debenture interest expense of $131,607 due to early repayment of the majority of the principal. Financing expense for the year ended December 31, 2019 was $787,993 higher compared to the year ended December 31, 2018 due to interest expense of $480,331 from the new redeemable debt and the higher Series B debenture interest expense of $402,529 as the debenture was only accounted for from June 7, 2018 offset by lower Series A debenture interest expense of $94,866 due to early repayment of the majority of the principal.

EBITDA(1) was $826,490 and $1,160,087 for the three-month and year ended December 31, 2019 compared to an EBITDA(1) of $(2,192,686) and $5,315,881 for the three-month and year ended December 31, 2018. The increase of $3,019,176 in EBITDA(1) for the three-month period ended December 31, 2019 compared to the three-month period ended December 31, 2018 is due to $3,917,026 increase in adjustments to fair value and investment written-off offset by an increase in unrealized foreign exchange loss of $823,267 to the three-month and year ended December 31, 2018. The decrease of $4,155,794 in EBITDA(1) for the year ended December 31, 2019 compared to the year ended December 31, 2018 was due to a combination of non-cash items, the most significant being the bargain purchase gain of $5,459,147 recognized during the year ended December 31, 2018.

Adjusted EBITDA(1) was $470,236 and $4,182,635 for the three-month period and year ended December 31, 2019 compared to $411,364 and $1,873,021 for the three-month and year ended December 31, 2018. The increase of $2,309,614 in Adjusted EBITDA(1) for the year ended December 31, 2019 compared to the year ended December 31, 2018, was due to the $993,225 gain on the Factor75 buyout, $960,593 higher royalty and loan payment income and $313,109 realized gains on the sale of shares for the year ended December 31, 2019.

Income taxes were $10,185,210 and $9,418,073 for the three-month and year ended December 31, 2019 compared to $(802,474) and $(977,669) for the three-month and year ended December 31, 2018. During the three-month period ended December 31, 2019, the Company derecognized $9,443,374 of the deferred tax on loss carryforwards and deductible temporary differences previously recognized because due to recent tax losses it was only possible to recognize such assets if there was convincing evidence that it is probable that there will be future taxable profits against which the unused tax losses or deductible temporary differences can be utilized. The Company's tax losses remain and based on a long-term financial plan prepared by management, the Company forecasts that it will be able to utilize the tax losses before their expiry date.

Profit (loss) after taxes from continuing operations was $(10,188,782) and $(12,222,664) for the three-month and year ended December 31, 2019 compared to $(2,382,640) and $3,037,266 for the three-month and year ended December 31, 2018. The increase in the loss after taxes of $7,806,142 for the three-month period ended December 31, 2019 compared to the three-month period ended December 31, 2018 was due to the $9,443,374 deferred tax asset derecognized during the three-month period ended December 31, 2019 offset by increase in non-cash items of $3,039,399 that were reported in revenues. The movement in the profit (loss) after taxes of $ 15,259,930 for the year ended December 31, 2019 compared to the year ended December 31, 2018 was due to the $9,443,374 deferred tax asset derecognized and the bargain purchase gain of $5,459,147 recognized in the year ended December 31, 2018.

(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

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Number of company investments	48	43	48	43
Number of active company investments	23	23	23	23
Number of new company investments in period	1	-	5	3
Number of royalty buyouts since inception	11	9	11	9
Total capital deployed	1,250,000	1,154,573	4,362,900	6,899,497
Total capital under management(2)	92,978,006	77,627,106	92,978,006	77,627,106
Total capital deployed since inception	80,381,831	76,024,420	80,381,831	76,024,420
Cash returned from royalty payments and royalty buyouts(1) since inception	62,300,494	51,600,534	62,300,494	51,600,534
Cash returned from royalty payments and royalty buyouts(1) during the period	2,053,113	2,604,961	10,908,436	7,739,182
Cash returned as % of capital deployed	77%	68%	77%	68%
Weighted average royalty rate(1)	2.80%	2.67%	2.80%	2.67%

(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, investments made in exchange for another asset other than cash and the amounts invested by co-investors.

In the last quarter of the year ended December 31, 2016, Flow Capital materially refocused its investment strategy to favor companies with high growth, recurring or predictable revenues and, the capability to raise capital from other investors, by minimizing downside with general security agreements, and by increasing upside potential through equity and warrants. The Company has deployed cash of $16,438,374 in seventeen companies with this refocused investment strategy and to date, the cash returned from royalty payments and royalty buyouts(1) on these investments was $9,920,323 or 60% of the capital deployed. Of the seventeen investments, four resulted in royalty buyouts with cash of $5,738,974 returned from the $2,795,158 deployed. Given the inherent risk of high-return potential growth companies, the Company expects to incur losses from time to time. Of the seventeen investments, four investments (one of which was written-off) where the total capital deployed was $5,840,424 are not currently paying a royalty though these investments have returned cash of $1,231,405. In cases where an investment is not paying a royalty, the Company pursues, to the fullest extent, its legal remedies in order to recover and maximize shareholder value.

For the three-month period ended December 31, 2019, the cash returned from royalty payments and royalty buyouts(1) was $2,053,113 compared to $2,604,961 for the three-month period ended December 31, 2018. The decrease in the cash returned for the three-month period ended December 31, 2019, was partly explained by the $1,298,773 received on the Frequentz buyout in December 2018 offset by receiving a $312,500 prepaid royalty and $246,575 proceeds from the sale of shares during the three-month period ended December 31, 2019. Since inception, the cash returned from royalty payments and royalty buyouts(1) was $62,300,494 compared to $51,600,534 representing 77% and 68% respectively of the total capital deployed. Cash of $10,908,436 was returned from royalty payments and royalty buyouts(1) in the last twelve months. The composition of the royalty payments and royalty buyouts(1) for the three-month period and year ended December 31, 2019 was made up of as follows:

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
	$	$	$	$
Royalty and loan payment income	1,806,538	1,280,155	5,677,222	4,695,112
Royalty buyouts and repayment of promissory notes	-	1,298,773	4,618,950	2,920,103
Proceeds from the sale of shares	246,575	85,406	612,264	199,758
Total	**2,053,113**	**2,604,961**	**10,908,436**	**7,739,182**

Portfolio Activity

On April 4, 2019, the Company closed an investment of US$250,000 in Spiridon Technologies Ltd. ("**Spiridon**") and on July 17, 2019, exercised its right to invest another US$250,000. As part of the investment, the Company has received 6,000,000 common shares warrant with a five-year expiry date.

As part of the consideration for the Ninepoint Transaction of selling the LOGiQ Global Partners business in April 15, 2019, the Company received $11,000,000 of Notes in aggregate from Ninepoint bearing interest at 10% per annum.

On June 27, 2019, the Company closed a term loan of US$1,000,000 in Echobox Ltd. ("**Echobox**") for a period of 24 months. The investment also included granting 169,370 share warrants for a five-year term at an exercise price of GBP 0.5255.

On July 4, 2019, Flow closed an investment for $800,000 with Wirkn Inc. **("Wirkn")**. In addition to a secured senior promissory note under the investment, the Company received warrants to purchase 284,742 Class A-2 Preferred Units of Wirkn at an exercise price of $0.5619 for a period of ten years.

On July 31, 2019, Flow closed a new investment for US$250,000 with DirecTech Labs Inc. **("DirecTech")**. In addition to receiving a royalty under the investment, the Company received warrants to purchase 354,661 common shares of DirecTech at an exercise price of US$0.7049 for a period of nine years.

On November 14, 2019, Flow closed a new investment for $1,250,000 with Wedge Networks Inc. **("Wedge")**. In addition to receiving a royalty under the investment, the Company received warrants to purchase 1,250,000 Class A common shares of Wedge at an exercise price of $0.25 for a period of five years.

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. A summary of the significant equity securities in the portfolio as of December 31, 2019, was as follows:

	# of securities	Cost December 31, 2019	Carrying amount December 31, 2019
Common shares (publicly traded)			
Inner Spirit Holdings Ltd.	13,855,000	$ 962,374	$ 1,593,325
Boardwalktech	70,684	152,841	24,386
Medical Imaging Corp.	4,000,000	-	-
mCloud Technologies Corp.	100,000	395,000	469,000
Pulse Oil Corp.	701,572	31,571	38,586
Common shares (not publicly traded)			
Crimson Energy Ltd. (not publicly traded)	1,871,358	299,528	-
Warrants (not publicly traded)			
Boardwalktech	319,540	1,365,572	14,588
DionyMed	190,000	53,442	-
Stability Healthcare Inc. ("Stability")	90,152	90,395	-
First Crypto Inc.	4,000,000	-	-
Spiridon	6,000,000	-	135,000
Echobox	169,370	14,544	14,544
DirecTech	354,661		
Wirkn	284,742	205,014	205,014
Wedge	1,250,000	-	-
Total		**$ 3,570,281**	**$ 2,494,443**

Not included in the table above, is the Company's right to receive 5% of any proceeds beyond US$4,500,000 if Frequentz, a company in which Flow Capital previously had a royalty that was bought-out, were to sell its assets in the future. For mCloud, in addition to the 1,500,000 mCloud shares received, the Company will earn another 3,500,000 shares if certain milestones are met by January 2025.

During the year ended December 31, 2019, the adjustments to fair value were $4,257,948. Of this amount, $5,352,950 related to investments written-off during the year where previously the fair value of the investments was recognized as zero. For the remaining balance of $(1,095,002), $1,091,878 related to fair value adjustments for shares and warrants

held in investee companies, $(993,225) related to the reversal of fair value adjustment on the Factor 75 buyout and $(1,193,655) was in respect of fair value adjustments to various royalty and loan investments in the portfolio. 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.

Investment Update

As of today's date, a summary of the active investment profile was as follows:

	December 31, 2019	December 31, 2018
	#	#
Investments - fully paying	16	16
Investment – royalty past due	-	1
Investment – delinquent/distressed/in legal process	7	6
Total	**23**	**23**

The total number of active investments has remained unchanged compared to December 2018. The five new investments closed during 2019 were offset by the three investments (Cherubim Builders Group, LLC, Solar Brokers and Dionymed**)** fully written-off and two investments (Factor75, LLC, mCloud) bought-out and redeemed.

The following is an update in respect of some investments in the portfolio;

mCloud: The US$2,000,000 senior note was repaid on July 26, 2019 and the Company received in addition to cash of US$2,000,000, 1,500,000 million mCloud shares at a market value of $592,500.

Factor75: The US$750,000 was bought-out on September 30, 2019 for US$1,500,000 realizing a gain of $993,225. The cash-on-cash return on this investment was 2.88.

The Company is also actively pursuing legal proceedings against a number of investees who are in default under the terms of the investment. Legal proceedings include obtaining defaults judgements and where necessary appointing a receiver. The Company expects that the legal proceedings against all investees will continue for some time until a satisfactory outcome is reached. The Company will report when there is a significant development in the legal proceeding such a recovery. For the three months ended December 31, 2019, the Company appointed a receiver for Kare Intellex Inc. and Medallion Holding Company, LLC. For Compression Generation Services, LLC**.,** the Company have applied to the court to have a receiver appointed**.** The Company started in December 2019 default legal proceedings against Lattice and its wholly owned subsidiary. The proceedings are for claims of approximately US$1,300,000. The Company have security for approximately US$900,000 of the claim.

Royalty buyouts

Since the first royalty buyout in July 22, 2015, the Company has closed eleven 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

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)
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
Agnity/mCloud	July 26, 2019	October 30, 2015	US$2,750,000 ($3,609,925)	$2,636,400(3)	$(381,025)(3)	$5,172,092(3)	1.43
Factor75	September 30, 2019	December 16, 2016	US$750,000 ($985,254)	$1,982,550	$993,225	$2,841,112	2.88
Total			**$16,709,564**	**$25,944,520**	**$10,036,336**	**$34,214,675**	**2.08**

(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.
(3) Flow Capital received 1,500,000 million mCloud shares pursuant to the buyout. Flow Capital will earn another 3,500,000 million shares if certain milestones are met by January 2025. The value of the 1,500,000 shares at the date of buyout was $592,500. The $592,500 was included in calculating the realized loss of $381,025. Neither the 1,500,000 or the 3,500,000 shares are included in the royalty buyout amount or the cumulative cash generated over the life of the investment until the shares are sold for cash.

Excluding royalty payments, the Company has received $25,944,520 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.

Past due for payments outstanding on investments at fair value

The following table shows the actual outstanding royalty payment past due at the end of each period:

	Dec. 31, 2019	Sept. 30, 2019	June 30, 2019	March 31, 2019	Dec. 31, 2018
Past due					
- 30 days or less	$ 19,791	$ 52,217	$ 152,042	$ 2,004	$ 2,046
- 31 to 60 days	-	-	-	-	-
- 61 to 90 days	-	-	-	-	56,842
- Over 91 days	-	-	6,544	-	-
Total	**$ 19,791**	**$ 52,217**	**$ 158,586**	**$ 2,004**	**$ 58,888**

In relation to the table:
- As of December 31, 2019, there were $303,468 of outstanding royalty payments where the fair value recognized was zero compared to $524,649 as at December 31, 2018; and
- The $19,791 past due at December 31, 2019 was paid subsequent to the end of the year.

OUTLOOK

Flow Capital makes revenue-linked, venture debt and other cashflow-oriented investments in emerging growth businesses. The Company is addressing a substantial need in the financing market for profitable or near-profitable emerging growth businesses looking to fuel expansion without the dilution of equity or restrictive covenants of conventional debt. The Company also provides a range of advisory services to assist investees in fulfilling their growth objectives.

We create shareholder value in three ways:
- Stable, recurring revenues from a diverse portfolio of cashflow-oriented investments in emerging growth companies,
- Royalty buyouts or buydowns, and
- Realized returns from equity and warrants.

Flow Capital's strategy for driving recurring revenue growth is as follows:

- Make new royalty and interest-bearing investments,
- Make follow-on investments in investee companies, and

- Participate in the revenue growth of investee companies with which we've contracted for a royalty.

Currently of interest to Flow Capital are industries experiencing digital transformation or high growth.

Building dynamic lead sources is the first step in value creation at Flow Capital. With over thirty million small and medium sized businesses in the United States and Canada, and tens of millions of others in Flow Capital's addressable geographies and sectors, there is a very large market of potential investment opportunities. Historically, the Company has sourced leads from the personal and professional networks of management, co-investors, investment banks, equity crowdfunding portals, channel partners such as accelerators and coworking spaces, and conferences and events. We will continue to cultivate these lead sources and will soon begin to market the Company to entrepreneurs through digital channels such as paid search, LinkedIn and YouTube.

Beyond lead flow, Flow Capital is proactively digitizing its business workflows in an effort to grow more efficiently and add scale. For instance, we are automating the collection of due diligence information from prospects. Automating risk adjudication and portfolio management with software and advanced numerical techniques, such as neural nets, is an area of interest and ongoing investigation at Flow Capital.

Flow Capital's long-term strategy for scaling the business is to increase its book value by reinvesting cash yielded from recurring revenues and other non-recurring cash inflows into new investments in emerging growth companies. Given that in the majority of our 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 Capital's portfolio. That said, it is the Company's mandate to minimize the incidence of losses while at the same time overcoming those losses with excess returns from the rest of the portfolio.

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

As of February 13, 2020, the Company has invested approximately $80,000,000 of capital in 48 portfolio companies, earned Adjusted EBITDA(1) of $26,225,157 since inception in July 2013 and has generated Free Cash Flow(1) of $16,108,835 since July 2014. Flow Capital generated Adjusted EBITDA(1) of approximately $470,000 and Free Cash Flow(1) of approximately $820,000 for the three-month period ended December 31, 2019. As of February 13, 2020, the Company estimates that royalty and interest income and Free Cash Flow(1) for January 2020 will be $0.3 million, and $0.1 million respectively with operating expenses estimated to be in the range of $0.25 million to $0.35 million on a monthly basis in Q1 2020. The Company's cash position at February 13, 2020 is $10.3 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 "**LOGiQ Transaction**"). The LOGIQ 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 LOGiQ 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 LOGiQ 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, 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 the year ended December 31, 2019, LOGiQ has contributed $1,716,834 in revenues and a profit of $685,623 to the net and comprehensive income (loss) including the gain of $536,616 from the sale of LOGiQ Global Partners Business to Ninepoint.

For further details regarding the LOGiQ Transaction and the impact on the financial statements for the three months and year ended December 31, 2019, refer to notes 6 and 7 of the financial statements for the year ended December 31, 2019 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, 2017:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Revenues	$ 4,026,370	$ 2,855,939	$(9,603,221)
Total profit/(loss) attributable to shareholders	(11,855,851)	3,030,163	(11,351,423)
Basic earnings/(loss) per share	(0.1472)	0.0579	(0.1068)
Diluted earnings/(loss) per share	(0.1472)	0.0579	(0.1068)
Total assets	35,401,039	56,665,349	39,392,563
Total non-current financial liabilities	14,127,084	5,810,548	16,334,427

Revenues for the year ended December 31, 2019 have increased by $1,170,431 compared to the year ended December 31, 2018 due to the higher royalty and payment income of $960,593 earned during the year ended December 31, 2019. For the year ended December 31, 2019, the lower profit/(loss) attributable to shareholders was due to a combination of non-cash items the most significant were the charge of $9,443,374 for the deferred tax expense ax asset in 2019 and the bargain purchase gain of $5,459,147 arising on the LOGiQ acquisition in 2018.

For 2019, total assets decreased by $21,264,310 as a result of the sale of the intangible asset of $12,115,869 following the sale of the Global Partners business in April 2019 and the derecognition of the deferred tax asset of $9,443,374. 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. Included in non-current financial liabilities is $8,017,450 relating to the redeemable debt held by the Priority Return Fund LP and $4,216,912 relating to the Series B assumed through the reverse acquisition in 2018.

SUMMARY OF QUARTERLY RESULTS

The following table provides selected unaudited financial information for each quarter since March 31, 2018.

	Three months ended Dec. 31, 2019	Three months ended Sept. 30, 2019	Three months ended June 30, 2019	Three months ended March 31, 2019	Three months ended December 31, 2018	Three months ended September 30, 2018	Three months ended June 30, 2018	Three months ended March 31, 2018
Royalty payment and loan interest income	$1,233,713	$1,340,289	$1,474,893	$1,527,833	$1,209,263	$1,213,968	$1,129,882	$1,038,506
Realized gain (loss) on royalty buyouts/sale of investments	6,117	807,888	(708,254)	(893,838)	282,646	(225,557)	400,200	125,000
Non-cash foreign exchange and adjustments to fair value	586,292	(2,426,450)	(1,356,603)	1,334,934	(2,524,769)	(649,795)	(591,110)	639,278
Other income	183,552	751,117	80,020	84,866	41,420	81,131	1,443,421	42,636
Total revenue	**$2,009,674**	**$472,844**	**$(509,944)**	**$2,053,795**	**$(991,440)**	**$419,747**	**$2,382,393**	**$1,844,420**
Total profit (loss) for the period attributable to shareholders	(10,188,782)	(882,696)	(1,000,862)	(213,550)	(2,458,672)	(499,406)	5,852,776	129,222
Basic earnings / (loss) per share	(0.1296)	(0.0107)	(0.0167)	0.0025	(0.0282)	(0.0062)	0.0935	0.0012
Diluted earnings /(loss) per share	(0.1296)	(0.0107)	(0.0167)	0.0025	(0.0282)	(0.0062)	0.0808	0.0012

The royalty payment income from the three-month period ended March 31, 2018 through to the three-month period ended December 31, 2019, has increased due to the royalty earned on new company investments as well as an increasing royalty due to growth in revenues in some investee companies. 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 was once-off and non-recurring. For the three-month periods ended March 31, 2019, June 30, 2019, September 30, 2019 and December 31, 2019, results include a loss of $(65,851), a profit of $416,045, a profit of $13,680 and a profit of $2,976, respectively, from discontinued operations for the Global Partners business that was sold in April 2019.

LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2019, the Company's capital resources were $17,601,982 made up as follows:

77,694,674 common shares	$ 54,281,690
Warrants	486,624
Contributed surplus	1,386,728
Accumulated other comprehensive income	(24,474)
Accumulated Deficit	(38,528,585)

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 13, 2020	Amount yet to be used as of February 13, 2020
20,000,000 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	-
10,000,000 Class A units in Priority Return Fund	July 24, 2019	$10,000,000	$10,000,000	-	$10,000,000

On October 2, 2019, the Company redeemed 1,982,550 of the Class A units of the Priority Return Fund. As payments under the Class A units match payments received from the underlying royalty investments, the Company is able to manage the balance sheet obligations.

The Company's cash position at December 31, 2019 was $10,316,577. During the three-month period ended December 31, 2019, the Company paid $16,958,000 for the redemption of all the outstanding Series A debentures. The Company's cash position at February 13, 2020 is approximately $10.3 million, and the Company is satisfied that it has sufficient cash resources to meet all current obligations and provide capital for the future growth of the business. Free Cash Flow[1] generated from royalty and loan payment income, proceeds from royalty buyouts and sale of equity investments will continue to be an important source of capital for the Company.

(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, 2019 and December 31, 2018 was made up as follows:

	December 30, 2019	December 30, 2018
Cash and cash equivalents	$ 10,324,694	$ 8,607,686
Investments at fair value – current portion	1,660,277	162,005
Accounts receivable and accrued income	5,557	828,005
Prepaid expense and other receivable	684,829	1,175,122
Income tax recoverable	1,891	79,790
Finance lease asset – current portion	802,605	-
Accounts payable and accrued expenses	(2,043,137)	(2,311,361)
Deferred tax payable	(12,537)	-
Deferred income – current portion	-	(200,000)
Provisions – current portion	-	(493,110)
Prepaid royalty payment and interest income	(271,820)	-
Convertible debentures	-	(16,667,633)
Lease liability – current portion	(1,344,479)	(2,888)
Total	**$ 9,807,880**	**$ (8,822,384)**

As of December 31, 2019, the outstanding principal on the Series A convertible debentures ("Series A debentures") was fully repaid. Based upon the available cash resources and other existing liquid assets, the Company has the capability to meet its obligations.

A summary of the contractual and other obligations as at December 31, 2019 were:

Contractual obligation	Total	Less than 1 year	1-5 years	Not determinable
Accounts payable and accrued liabilities	$ 2,043,137	$ 2,043,137	$ -	$ -
Lease liability	2,861,761	1,344,479	1,517,282	-
Redeemable debt	8,017,450	-	-	8,017,450
Series B Convertible debenture	5,122,590	-	5,122,590	-
Total	**$ 18,044,938**	**$ 3,387,616**	**$ 6,639,872**	**$ 8,017,450**

On October 2, 2019, the Company redeemed 1,982,550 of the Class A units of the Priority Return Fund. As payments under the Class A units match payments received from the underlying royalty investments, it means that the Company is able to manage the liquidity obligation but the maturity dates are not determinable.

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, 2019, the maximum credit exposure for all financial assets excluding cash and cash equivalents and equity securities in investee companies was $22,321,073 (December 31, 2018: $22,272,930). 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, 2019 was US$6,239,536.

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, 2019 were $2,417,596 from adjustments to fair value and $(5,457,902) 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, 2019 of $(3,040,306).

The Company holds a number of equity investments in listed and unlisted entities. The equity investments include both common shares and warrants. For shares and warrants 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. For unquoted equity investments, the fair value was determined using the valuation technique referred to as the market approach which uses transaction prices paid for an identical or similar instrument or comparable company valuation multiples. The impact during the year ended December 31, 2019 for the valuation of equity investments that was recognized in the total comprehensive income (loss) were $1,689,765 from adjustments to fair value, $313,109 for gains recognized on sale and $(2,094,419) for realized losses.

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, 2019 and December 31, 2018 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.

All financial liabilities are measured using amortized cost except for redeemable debt. The value of the redeemable debt is dependent on the Underlying Royalty Contracts and therefore subject to asset-specific performance risk. For accounting purposes, as the Underlying Royalty Contracts are measured at fair value through profit and loss, the redeemable debt, to avoid an accounting mismatch, is measured at fair value through profit and loss. As a result, the movements in the fair value of the Underlying Royalty Contracts may in certain circumstances impact the valuation of the redeemable debt. Such circumstances include where the fair value of the Underlying Royalty Contracts falls below the carrying value of the redeemable debt or the fair value of the Underlying Royalty Contracts increases because of a likely buyout so increasing the probability of a payment required of the Class D units.

The Company does not hold any financial derivatives at December 31, 2019 or at any time during the three-month period and year ended December 31, 2019, either for hedging or speculative purposes.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2019, Flow Capital had no commitments for material capital expenditures and no off-balance sheet arrangements.

As at December 31, 2019, the only material contractual obligations were the convertible debentures, redeemable debt and lease liability (see Liquidity and Capital Resources).

Note 33 of the financial statements for the year ended December 31, 2019, describe the contingent liabilities of the Company. The first contingent liability relates to litigation for a claim of $5,000,000 as well as seeks punitive damages in the amount 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. A 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 recourse 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 liability, if any, cannot be reasonably determined at this time. The fourth contingent liability is in June 2019, the Company was served with a statement of claim on behalf of an employee who was employed by the Global Partners business prior to it's sale and who decided not to take up the employment offer by the buyer when the business was sold in April 2019. The claim is for $500,000 for damages for wrongful dismissal and breach of employment contract and $100,000 for aggravated and general damages. On June 19, 2019, the Company filed a Notice of Intent to Defend. On July 15, 2019, Flow Capital filed a statement of defense and a counterclaim for i) repayment of $50,000 promissory note and ii) a counterclaim of $375,000 for intentional interference in the transaction selling the Global Partners business. As the employee himself terminated his employment with the Company and decided not to take up the buyer's employment offer, the amount of the liability, if any, cannot be reasonably determined at this time.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel

i) Compensation

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Short-term employee benefits	$ 213,280	$ 153,414	$ 832,649	$ 582,463
Share-based compensation	43,539	41,623	173,063	137,503
Consultancy fees	82,637	86,336	362,390	321,699
Contract payment provision	293,750	-	293,750	-
Total	**$ 633,206**	**$ 281,373**	**$ 1,661,852**	**$ 1,041,665**

In November 2019, the Company undertook a commitment to complete a restructuring. This restructuring involves a contract payment to an employee who was a key management personnel during the year. The final contract payment amount has not been finalized and the Company have recorded a provision of $293,750.

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.

ii) Other transactions

In July 2019, the Company, through a limited partnership called Priority Return Fund, raised $10,000,000 in financing. Of the $10,000,000 redeemable debt raised, $1,600,000 was subscribed for by certain key management personnel. During the three months and year ended December 31, 2019, interest of $38,586 and $38,684, respectively, was accrued and expensed on the redeemable debt held by the key management personnel. As at December 31, 2019, $1,282,792 of redeemable debt was held by key management personnel.

In 2019, the Company has made an investment in a company effectively jointly controlled by a member of the key management personnel. The terms of the investment were based on similar terms offered on other investments and other investees. The amounts payable under the investment are in accordance with normal payment terms.

A subsidiary of the Company has provided a loan of US$150,000 to a member of the key management personnel that was still outstanding as at December 31, 2019. The interest income received was as follows:

	Three months ended December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Total	**$ 859**	**$ 903**	**$ 3,409**	**$ 1,854**

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 judgements 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 judgements 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.

The Company has initially applied *IFRS 16 Leases* (“**IFRS 16**”) from January 1, 2019 (“Initial Application”) which replaces IAS 17 *Leases* and related interpretations. IFRS 16 establishes a single, on-balance sheet accounting model for leases. As a result, the Company, as a lessee, has recognized a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, has been presented net of accumulated amortization and is disclosed under property and equipment, and for the finance lease, the right-of-use asset is shown as finance lease asset. The lease liability has been disclosed as a separate line item, allocated between current and non-current liabilities. The Company has adopted IFRS 16 using the modified retrospective approach with the effect of initially applying this standard at the date of Initial Application. Accordingly, this election means that the comparative information has not been restated and the disclosure requirements in IFRS 16 have not generally been applied to comparative information. Following a review of the Company’s leases, a $29,505 adjustment is required to the accumulated deficit as at the date of Initial Application.

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 13, 2020, there were issued and outstanding: (a) 77,694,674 Common Shares; (b) 6,188,021 options under the company’s stock option plan to acquire common shares, at a weighted average exercise price of $0.2684; (c) convertible debentures at an average conversion price of $3.60 (or a conversion rate of 277.78 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 1,422,940 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.

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 judgement. 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 judgements 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 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 13, 2020.

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, realized losses from investments written-off, sale of equity securities 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, 2019	**Three months ended December 31, 2018**	**Year ended December 31, 2019**	**Year ended December 31, 2018**
Profit (Loss) before income taxes	**$ (3,572)**	**$ (3,202,762)**	**$ (2,804,591)**	**$ 2,059,597**
Income from discontinued operations before income taxes	2,939	(76,033)	366,813	(7,103)
Depreciation – continuing operations	40,331	24,071	161,606	98,975
Amortization – discontinued operations	-	409,048	407,485	923,631
Financing expense	786,792	652,990	3,028,774	2,240,781
EBITDA (EBITDA Loss)	**826,490**	**(2,192,686)**	**1,160,087**	**5,315,881**
Adjustments:				
Bargain purchase gain	-	-	(304,908)	(5,459,147)
Unrealized foreign exchange (gain)/loss	134,335	(597,482)	452,777	(703,024)
Adjustments to fair value	(1,953,109)	(6,652,985)	(4,257,948)	(14,017,372)
Realized loss from investments written-off	1,210,526	9,827,431	5,457,902	17,932,127
Realized loss from sale of equity securities	217,200	-	2,094,419	-
Release of deferred fee income	-	-	(600,000)	-
Share-based consultancy fee income	-	-	-	(1,390,906)
Share-based payment expense	34,794	27,086	180,306	195,462
Adjusted EBITDA	**$ 470,236**	**$ 411,364**	**$ 4,182,635**	**$ 1,873,021**

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 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 December 31, 2019	Three months ended December 31, 2018	Year ended December 31, 2019	Year ended December 31, 2018
Net cash generated by (used in) operating activities	**$ 9,713,716**	**$ 1,160,323**	**$ 13,729,519**	**$ (1,588,819)**
Investments at fair value – new investments	1,230,591	1,153,390	4,362,900	6,899,497
Investments at fair value – royalty buyouts	-	(660,455)	(985,254)	(778,115)
Investments at fair value – redemptions	(9,500,763)	(477,470)	(12,131,383)	(1,619,508)
Investments at fair value – shares received on a buyout and upon dividend	56,141	-	648,641	-
Investments at fair value – proceeds from sale of equity investments	(266,324)	(76,320)	(651,700)	(190,672)
Investments at fair value – gain recognized from sale of equity investments	25,312	-	109,716	27,027
Interest paid	(982,100)	(869,806)	(1,980,847)	(1,742,282)
Interest payable – movement in period	456,383	439,746	(80,175)	3,781
Income tax recoverable/payable - movement in period	90,061	34,026	(46,519)	(334,289)
Free Cash Flow	**$ 823,017**	**$ 703,434**	**$ 2,974,898**	**$ 676,620**

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 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, 2019 and December 31, 2018 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, 2019	Year ended December 31, 2018	Since inception to the year ended December 31, 2017
Royalty payment income	32,173,740	4,342,510	4,349,157	23,482,073
Interest income on promissory notes and loans	2,144,627	1,234,217	238,037	672,373
Realized gain on royalty buyouts	9,351,170	993,225	807,846	7,550,099
Principal payments on promissory notes	3,607,888	2,636,400	647,250	324,238
Redemptions on promissory notes	1,210,376	-	-	1,210,376
Capital returned from royalty buyouts	13,404,704	989,325	1,655,785	10,759,594
Capital returned from royalty buydowns and recovery	1,644,346	-	94,588	1,549,758
Proceeds received on sale of shares	842,372	651,700	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	(2,149,633)	-	-	-
Accounts receivable balance	(160,277)	-	-	-

Prepaid royalty payment and interest income	271,820	271,820	(251,872)	251,872
Fair value of accounts receivable written down	(302,940)	-	-	-
Total	**62,300,494**			

Description	Total cash returned from royalty payments and royalty buyouts since inception	Year ended December 31, 2018	Since inception to the year ended December 31, 2017
Royalty payment income	27,831,230	4,349,157	23,482,073
Interest income on promissory notes	910,410	238,037	672,373
Realized gain on royalty buyouts	8,357,945	807,846	7,550,099
Principal payments on promissory notes	971,488	647,250	324,238
Redemptions on promissory notes	1,210,376	-	1,210,376
Capital returned from royalty buyouts	12,415,379	1,655,785	10,759,594
Capital returned from royalty buydowns	1,644,346	94,588	1,549,758
Proceeds received on sale of shares	190,672	190,672	-
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)	-	-
Accounts receivable balance	(162,005)	-	-
Prepaid royalty payment income and interest income	-	(251,872)	251,872
Fair value of accounts receivable written down	(524,649)	-	-
Accounts receivable written-off	(1,506,959)	-	-
Total	**51,600,534**	-	

For the analysis of the amounts shown in the above table from inception to the year ended December 31, 2017 and year ended December 31, 2018, please refer to the MD&A for the three months and year ended December 31, 2018 dated February 11, 2019.