Flow Capital

MANAGEMENT'S DISCUSSION AND ANALYSIS – March 2021

Flow Capital Corp.

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 March 31, 2021. The information in this MD&A is current as of May 25, 2021 and should be and should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2021 and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2021.

The Company's interim condensed consolidated financial statements and notes thereto for the three months ended March 31, 2021 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; 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 management information circular of the Company dated April 20, 2020 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, 2020, which are available on SEDAR at www.sedar.com.

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INVESTMENT IN MINILUXE

On April 27, 2021, the Company closed a US$2,500,000 (CA$3,100,750) investment (the **"Aggregate Investment"**) in Miniluxe Inc., (**"Miniluxe"**).

Through its brand platform of clean beauty products and services, MiniLuxe exists to provide self-care for everyone, anywhere at any time. Through 2+ million nail care services, MiniLuxe has set the industry standard for the most used and least-regulated beauty service with health, hygiene, and fair labor practices. Bridging technology with experiential design across an omni-platform, the company's vision is to become the world's leading ethical nail-care brand and to continue to empower its diverse community of nail designers, who represent the largest independent female workforce. Building off its talent platform in providing training, economic mobility, and career growth, MiniLuxe is poised to reimagine upskilling and edu-ployment at scale. Its line of offerings is non-toxic, Leaping Bunny-certified, and made in the US, providing "better-for-you" products across its digital and in-studio experiences. MiniLuxe is on a mission to inspire, elevate, and transform an entire industry for both its customers and talent.

Under the terms of the investment, Flow Capital will earn a fixed interest on the Aggregate Investment and received warrants at a strike price determined by a subsequent equity financing being raised by Miniluxe.

BUYOUTS OF ROYALTY INVESTMENTS

On April 3, 2021, Spiridon Technologies Ltd., (**"Spiridon"**) completed a buyout of Flow Capital's royalty investment for US$425,000. Including the monthly royalty payments received by Flow, this represents a cash-on-cash return of approximately 1.7 times the amount invested over 24 months.

On May 24, 2021, Interiormark LLC., ("**Interiormark**") completed a buyout of Flow Capital's royalty investment for US$1,925,000. Including the monthly royalty payments received by Flow, this represents a cash-on-cash return of approximately 2.67 times the amount invested over 6 years.

REDEMPTION OF FLOW PRIORITY RETURN FUND LP

On April 16, 2020, the Company redeemed 217,000 outstanding F units of its Flow Priority Return Fund II LP (the **"Priority Return Fund II"** or **"PRF II"**).

IMPACT OF COVID-19

During the first quarter of 2020, there was a global outbreak of COVID-19, which has had a significant impact on businesses worldwide through the restrictions put in place by governments regarding travel, business operations and isolation/quarantine orders.

The observed impact on the financial performance of Flow Capital's portfolio companies has been mixed. Some investee companies have reported that their customers are slowing fulfillment cycles and have delayed new purchases. Initially, there were also reports of some delays in order delivery primarily due to short term supply chain disruptions in Asia, which have since recovered in the recently concluded quarter. On a positive note, investee companies in fields related to healthcare and communications infrastructure, or others that offer certain technology-enabled services and software, have observed increasing demand. Financial stress and business uncertainty are pushing businesses to seek alternate sources of credit, which is helping drive more new deal flow to the Company.

At this time, the true extent of the impact the COVID-19 outbreak may have on Flow Capital is unknown as this will depend on future developments that are highly uncertain and that cannot be predicted with confidence. These uncertainties arise from the inability to predict the ultimate geographic spread of the disease, and the duration of the outbreak, including the duration of travel restrictions, business closures or disruptions, and quarantine/isolation measures that are currently, or may be put, in place by Canada and other countries to fight the virus. Given the uncertainty around the extent and timing of the future spread or mitigation of COVID-19 and around the imposition or relaxation of protective measures, the Company cannot estimate with certainty the impact on its investee portfolio businesses and to its own future results of operations, cash flows or financial condition. Infections may become more widespread and the limitation on the ability to work, travel and timely sell and distribute products, as well as any closures or supply disruptions, may be extended for longer periods of time and to other locations, all of which would have a negative impact on any investee company, and hence the Company's business, financial condition and operating results. In addition, the unknown scale and duration of these developments have macro and micro negative effects on the financial markets and global economy which could result in an economic downturn that could have a material adverse effect on its operations and financial results, earnings, cash flow and financial condition.

The Company has assessed these developments up to the date of this MD&A and has estimated the impact of adjusting and non-adjusting events in its financial statements, under the provisions of IAS 10. The Company will continue to review the impact of COVID-19 on the business, in the ensuing quarters.

GENERAL DESCRIPTION OF THE BUSINESS

Flow Capital makes cashflow-oriented investments using venture debt and revenue-linked royalty financing structures, in emerging growth businesses (individually, an "**investee**" and collectively the "**investees**"). A typical investee is a profitable or near-profitable company, at the cusp of rapid expansion, seeking alternative sources of growth capital without significant dilution from equity financing 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. First, by investing in high growth potential businesses using financial structures that provide the investee with capital in exchange for regular interest and principal payments and / or recurring revenue-linked royalty payments. By focusing on cash generating investment structures, the Company ensures a stable, continuous accretion of cash returns on its principal investments. Venture debt typically carries a fixed rate of interest and may or may not be amortizing. The revenue-linked structure earns interest like returns that can expand with the growth of the underlying investee revenue-base. 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.

Secondly, Flow Capital's revenue-linked financing structures are constructed to yield a multiple of the aggregate investment amount on an exit event. Investees typically have an option to buydown or buyout the financing structure, after a minimum tenure, at a multiple of the initial investment. As the investees control the timing of the buyouts, it is not possible to precisely forecast exit events 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 value is long-term returns realized from equity and warrant positions, and from success fees. While Flow Capital does not typically make direct equity investments in its investees, the Company has from time-to-time acquired equity or warrants in exchange for providing an investment or advisory services to investees, or in other cases, such as when an existing financing structure is converted into equity. Further, some investment structures include a success fee payable on a liquidation event for the principals (e.g. a stock exchange listing, change of control, acquisition of the business) for the investee company. Precisely forecasting the future value of equity and warrant positions, or the timing of liquidation events that crystalize the success fees, is not possible for Flow Capital; however, these positions have the potential to create significant shareholder value over the long term, through excess of cash flows from royalty payments, 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, over the duration of an active investment, until an exit event is triggered
- Gains on exit events including royalty buyouts or buydowns, and
- Gains from residual value in equity and warrant positions, equity-linked success fees, realized over the longer term.

RESULTS OF OPERATIONS

	Three months ended March 31, 2021	Three months ended March 31, 2020
Revenues	$ 2,340,570	$ 1,092,937
Profit/(Loss) for the period	1,307,956	(369,536)
EBITDA (1)	1,691,650	155,842
Adjusted EBITDA(1)	1,337,613	592,220
Free Cash Flow(1)	405,191	(76,750)
Basic Earnings/(Loss) per share(3)	0.0411	(0.0096)
Diluted Earnings/(Loss) per share(3)	0.0408	(0.0096)
Book Value per outstanding share(2)(3)	0.6000	0.4600
Weighted basic average number of shares outstanding	31,858,744	38,631,233
Weighted diluted average number of shares outstanding	32,095,596	38,631,233

(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.

(3) Due to the share alteration which occurred in June 2020, the comparative figures have been restated. Based on total earnings / (loss) of continuing operations.

Revenue analysis

Three months ended March 31, 2021

	Three months ended March 31, 2021	Three months ended March 31, 2020	Growth %
Royalty payment and loan interest income	$ 1,610,068	$ 930,333	73.1
Realized gain from sale of investments	344,362	225,970	52.4
Foreign exchange gain (loss)	(143,924)	846,201	(117.0)
Adjustments to fair value	525,750	(970,792)	154.2
Realized loss from investments written off	-	-	N/A
Other income (including other interest income)	4,314	61,225	(93.0)
Total revenue	**$ 2,340,570**	**$ 1,092,937**	114.2

Total revenue for the three-month period ended March 31, 2021 was $2,340,570, a 114.2% increase from $1,092,937 for the three-month period ended March 31, 2020. Royalty and loan interest income for the three-month period ended March 31, 2021 was $1,610,068 representing a 73.1% increase from the $930,333, earned in the three-month period ended March 31, 2020.

Of the $1,610,068 royalty payment and loan interest income earned during the three-month period ended March 31, 2021, $342,165 was contributed by new investments acquired or topped-up over the past year, $946,360 was from investees that increased their royalty payments due to growth in their revenues and investees resuming to pay a royalty and $22,602 was due to the amortization of the promissory notes. These increases were partly offset by a reduction of $126,450 due to three royalty buyouts.

Realized gain from sale of investments was $344,362 for the three-month period ended March 31, 2021 compared to a realized gain of $225,970 for the three-month period ended March 31, 2020. The realized gain of $344,362 is primarily on account of sales of common shares held in Inner Spirit Holdings ("ISH"), Boardwalk Technologies ("BWLK"), mCloud Technologies Corp. ("mCloud") and LevelJump Healthcare ("JUMP"), while the realized gain of $225,970 during the three-month period ended March 31, 2020 was from gains on the sales of shares in mCloud Technologies Corp. ("mCloud") and Pulse Oil Corp. ("Pulse").

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 March 31, 2021, revenues were impacted by IFRS 9 net non-cash items of $381,826 compared to $(124,591) for the three-month period ended March 31, 2020. The non-cash amount of $381,826 was made up of $525,750 from adjustments to fair value and $(143,924) of foreign exchange impact. Adjustments to fair value comprise an increase of $(675,687) from fair value adjustments to various royalty and promissory notes investments in the portfolio, and an increase of $1,201,438 in the fair value of equity and warrant positions held in investee companies.

Operating expense analysis

Total operating expenses were $657,320 for the three-month and year ended March 31, 2021 compared to $979,102 for the three-month period ended March 31, 2020.

Salaries, benefits, and other staffing costs were $390,992 for the three-month period March 31, 2021 compared to $413,905 for the three-month period and year ended March 31, 2020. The decrease in staffing costs was due to a change in team composition.

Share-based compensation was $27,780 for the three-month period ended March 31, 2021 compared to $34,005 for the three-month period ended March 31, 2020. The year over year change reflects the expense impact of the vesting schedule for the options outstanding on March 31, 2021 and the forfeiture of 125,000 options by former employees.

Depreciation was $8,401 for the three-month period ended March 31, 2021 compared to $42,007 for the three-month period ended March 31, 2020. The decrease was due to the leasehold improvements on the Company's office space having been fully amortized in the previous year.

Professional fees were $78,365 for the three-month period ended March 31, 2021 compared to $341,186 for the three-month period ended March 31, 2020. Professional fees for the three-month period ended March 31, 2021 were lower by $262,821 compared to the three-month period ended March 31, 2020, primarily due to savings on consulting fees paid to a former US-based executive in the previous year.

Office and general administrative expenses were $151,783 for the three-month period ended March 31, 2021, comparable to $147,999 for the three-month period ended March 31, 2020.

Free cash flow

Free Cash Flow[(1)] for the three-month period ended March 31, 2021 was $405,191 compared to $(76,750) for the three-month period March 31, 2020. The increase is attributed to higher royalty and loan interest income and lower operating costs.

Analysis for further items included in the Results of Operations

Financing expense was $393,500 for the three-month period ended March 31, 2021 compared to $483,371 for the three-month period ended March 31, 2020. The year-over-year decrease of $89,871 was due to the redemptions of Priority Return Fund I ("PRF I") in September 2020 and the Series B debentures In December 2020, offset by the relatively lower cost of additional financing raised through the Priority Return Fund II ("PRF II") in Q4 2020.

EBITDA[(1)] was $1,691,650 for the three-month period ended March 31, 2021 compared to $155,842 for the three-month period ended March 31, 2020. The year-over-year increase of $1,535,808 in the EBITDA[(1)] for the three-month period ended March 31, 2021 is primarily attributed to the stronger operating performance reflected in the growth in royalty and loan income and lower operating expenses, which resulted in profit before income taxes of $1,289,749 for the three-month period ended March 31, 2021, compared to a loss of $(369,536) for the three-month period ended March 31, 2020.

Adjusted EBITDA[(1)] was $1,337,613 for the three-month period ended March 31, 2021 compared to $592,220 for the three-month period ended March 31, 2020. The year-over-year increase of $745,393 also flows from the improved operating results discussed above, adjusted by movements in foreign exchange and fair value of the investment portfolio.

Income tax expense was $(18,207) for the three-month periods ended March 31, 2021 and $Nil for the three-month periods ended March 31, 2020. The income tax expense in Q1 2021 is on account of gains in the Company's wholly owned US subsidiary. The Company has approximately $40,145,514 in deferred tax loss carry forwards in Canada. The Company has derecognized all the deferred tax on loss carry forwards due to recent tax losses, and the inability to forecast future taxable profits in the near term. However, 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.

(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.

Profit (loss) after taxes was $1,307,956 for the three-month period ended March 31, 2021 compared to $(369,536) for the three-month period ended March 31, 2020. The growth in profits is attributed to the improved operating performance, discussed above, and a deferred tax recovery of $18,207.

PORTFOLIO UPDATE

Performance Overview

Flow Capital's business model combines recurring monthly revenues from revenue-linked royalty and interest payments, with gains on exit events including royalty buyouts or buydowns, and upside participation in equity and warrant positions, or finally from equity-linked success fees. Occasionally, the Company also earns advisory fees. This yields a continuous accretion of cash returns over the duration of an active investment, additional gains from a multiple of the initial investment amount received on an exit event, and long-term residual value linked to equity growth in the investee companies.

As at March 31, 2021, the total realized returns from royalty payments and royalty buyouts(1) ,since inception, was $87,198,503 compared to $75,815,040 as at March 31, 2020, representing 86% and 82% respectively, of the total capital deployed.

	Three months ended March 31, 2021	Three months ended March 31, 2020
Number of company investments(1)	52	50
Number of active company investments	19	23
Number of new company investments in period	-	-
Number of royalty buyouts since inception	14	11
Total capital deployed during the period	-	-
Total capital deployed since inception	$ 101,172,831	$ 92,756,831
Realized return from royalty payments and royalty buyouts(2,3) since inception	$ 87,198,503	$ 75,840,296
Realized return from royalty payments and royalty buyouts(3) during the period	$ 2,278,102	$ 2,673,901
Investments at fair value, at the end of period	$29,783,262	$ 20,925,835

(1) Updated to reflect the investment assets acquired in the combination between Grenville Strategic Royalty Corp and LOGiQ Asset Management Inc., which led to the formation of Flow Capital Corp.

(2) Weighted average royalty rate and realized return from royalty payments and royalty buyouts are non-IFRS measures. Refer to section Definition of Non-IFRS Measures for definitions.

(3) Updated to include the proceeds from the sale of the Global Partners business.

Royalty Payments and Royalty Buyouts(1)

For the three-month period ended March 31, 2021, the total returns from royalty payments and royalty buyouts(1) was $2,278,102 compared to $2,673,901 for the three-month period ended March 31, 2020. The year-over-year decrease of $(395,799) in the three-month period ended March 31, 2021, was primarily due to buyouts of higher-yielding royalty investments being replaced with new relatively lower-risk and hence relatively lower yielding loan investments, and movements in the fair market value of the investment portfolio.

The compositions of the royalty payments and royalty buyouts(1) for the three-month and twelve-month periods ended March 31, 2021 and 2020 were:

	Three months ended March 31, 2021	Three months ended March 31, 2020	Twelve months ended March 31, 2021	Twelve months ended March 31, 2020
Royalty payment and loan interest income	$ 1,664,795	$ 922,675	$ 5,557,793	$ 5,172,338
Royalty buyouts and repayment of promissory notes	34,433	1,525,256	3,706,241	17,019,206
Proceeds from the sale of shares	578,874	225,970	598,772	733,055
Total	**$ 2,278,102**	**$ 2,673,901**	**$ 9,862,805**	**$ 22,924,599**

Royalty Buyouts

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

Investee Company	Date of Royalty Buyout	Date of Investment	Aggregate Investment Amount	Royalty Buyout Amount	Gains Realized on Royalty Buyout	Cumulative Cash Generated Over the Life of the Investment	Cash-on-Cash Return [(2)]
Wmode	July 23, 2015	November 1, 2013	$1,000,000	$2,783,010	$1,783,010	$3,147,358	3.15
DS Handling	September 25, 2015	September 5, 2014	$1,000,000	$1,387,500	$387,500	$1,650,268	1.65
INOVx	October 6, 2015	July 1, 2014	US$2,000,000 ($2,137,000)	$2,247,158	$(11,089) [(1)]	$2,722,238	1.27
Above Security	October 20, 2015	August 15, 2014	$3,000,000	$6,000,000	$2,700,000	$6,453,861	2.15
4Tell	November 17, 2015	December 31, 2013	US$1,000,000 ($1,090,215)	$1,444,377	$377,862[(1)]	$1,855,519	1.70
Aquam Corporation	April 18, 2017	June 6, 2014	$2,000,000	$5,000,000	$3,000,000	$7,527,821	3.76
Fixt	February 28, 2018	April 25, 2017	$125,000	$250,000	$125,000	$276,563	2.21
Boardwalktech	June 21, 2018	December 15, 2017	US$300,000 ($386,040)	$800,400	$400,200	$849,073	2.20
Frequentz	December 3, 2018	June 6, 2014	US$850,000 ($1,126,130)	$1,413,125	$280,628	$1,718,770	1.53
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
eScribe	July 22, 2020	December 22, 2016	$250,000	$500,000	$250,000	$671,747	2.69
Medical Imaging	December 8, 2020	October 31, 2014	US$2,000,000 ($2,945,050)	$2,995,403	$433,803	$5,192,239	1.77
Wedge	December 22, 2020	November 14, 2019	$1,250,000	$1,250,000	$-	$1,594,318	1.28
Total			**$20,904,614**	**$30,689,923**	**$10,339,114**	**$41,672,979**	**1.91**

(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.

The table above excludes the $12,375,000 received in proceeds from the sale of the Global Partners business, as that was the sale of an asset inherited through an acquisition and an atypical investment of the Company.

Excluding royalty payments, the Company has received $30,689,923 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.

On April 3, 2021, Spiridon completed a buyout of Flow Capital’s royalty investment for US$425,000. Including the monthly royalty payments received by Flow, this represents a cash-on-cash return of approximately 1.7 times the amount invested over 13 months.

On May 24, 2021, Interiormark completed a buyout of Flow Capital’s royalty investment for US$1,925,000. Including the monthly royalty payments received by Flow, this represents a cash-on-cash return of approximately 2.67 times the amount invested over 6 years.

Portfolio Activity

As of March 31, 2021, a summary of the active investment profile was as follows:

	March 31, 2020	December 31, 2020
	#	#
Investments - fully paying	14	14
Investment – royalty past due	1	2
Investment – delinquent/distressed/in legal process	4	3
Total	**19**	**19**

The total number of active investments as at March 31, 2021 remained unchanged since December 31, 2020. Two active investments remained past due through the quarter, of which one was reclassified as delinquent at the end of the quarter. The Company is actively pursuing measures to recover its dues.

Not included in the above is an investment that gives Flow the right to a 20% royalty on the revenues of the Canadian operations of Longevity Funds International (“Longevity”). Longevity is currently a pre-revenue company that is expected to launch operations in 2021.

Past due for payments outstanding on investments at fair value

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

	March 31, 2021	December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020
Past due					
- 30 days or less	$ 15,625	$ 35,416	$ 35,416	$ 19,791	$ 19,791
- 31 to 60 days	31,250	19,791	19,791	-	-
- 61 days or more	31,250	79,165	19,791	-	-
Total	**$ 78,125**	**$ 134,372**	**$ 74,998**	**$ 19,791**	**$ 19,791**

The Company is actively pursuing legal proceedings against investees who are in default under the terms of the investment. Legal proceedings include commencing actions, 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 as a recovery.

Following is an update on material developments in legal proceedings, for the three-month period ended March 31, 2021;

The Company was awarded favorable judgments in the legal proceedings previously initiated against Lattice and its wholly-owned subsidiary on January 24, 2020 and February 20, 2020, respectively. The proceedings are for claims of approximately US$1,300,000 collectively. The Company have security for approximately US$900,000 of the claim. On March 12, 2021, the wholly-owned subsidiary had voluntarily filed for Chapter 7 bankruptcy in Montana. The Company is pursuing options to enforce on said judgments to maximize recovery.

On December 23, 2019, Manifest Communications Inc. filed a Notice of Intention to make a Proposal to its unsecured creditors. On April 23, 2020, the Company and other creditors considered and voted in favour of the proposal pursuant to which the Company will be receiving the largest pro rata share of dividends among all creditors, such dividends to be distributed in accordance with a fixed payment plan. In March 2021, the Company received an interim dividend distribution of a notional amount, from the Trustee. Upon payment in full in accordance with the proposal, no further payments or obligations will be owing to the Company.

The Company was awarded favorable judgments in the legal proceedings previously initiated against Compression/Generation Services, LLC and its owner, on October 20, 2020 and October 19, 2020, respectively. The proceedings are for claims of approximately US$5,190,000 collectively. The Company is pursuing options to enforce on said judgments to maximize recovery.

In July 2020, the Company received notification of a potential buyout for a royalty investment. Under the terms of the agreement, the buyout value is to be determined based on the higher of 5% of the net equity value of the investee company, or $1,500,000. In accordance with the contract, the Company and the investee company jointly appointed KPMG to determine an arms-length estimate of the equity value of the investee and a final report is pending inputs from the investee. The investee has subsequently disputed the terms of the buyout value. It is the Company’s view that the dispute is baseless and without merit, and this is a clear attempt to avoid their contractual obligations. Flow Capital is vigorously pursuing the full amount due to Flow, through the courts, with all its resources.

Value of Underlying Financial Assets

Flow Capital’s financial assets are measured at fair value (refer Note 5 of the financial statements for details). The total estimated fair value of Flow Capital’s non-cash financial assets as at March 31, 2021 was $29,783,262 compared to $29,773,287 on December 31, 2020.

		Royalty agreement acquired		Equity securities in investee companies		Promissory notes receivable		Total
Balance as at December 31, 2020	**$**	**17,109,057**	**$**	**4,328,699**	**$**	**8,335,531**	**$**	**29,773,287**
Proceeds received on sale of shares		-		(578,874)		-		(578,874)
Gain recognized on sale of shares – net		-		344,362		-		344,362
Redemptions and contract buydowns		(34,433)		-		-		(34,433)
Royalty earned and payments received- net		(22,543)		-		-		(22,543)
Foreign exchange movements		(154,727)		-		(92,246)		(246,890)
Loan amortization income		-		-		22,602		22,602
Adjustment to fair value		(675,687)		1,201,438		-		525,751
Balance as at March 31, 2021	**$**	**16,221,667**	**$**	**5,295,625**	**$**	**8,265,970**	**$**	**29,783,262**

The changes in the carrying amount in investments at fair value during the reporting period were primarily driven by new investments, repayments and redemptions of invested capital, sale of equity investments and unrealized gains (losses) from fair value adjustments and the impact of foreign exchange movements.

During the three-month period ended March 31, 2021, the adjustments to fair value were $525,751. Of this amount, $(675,687) was due to fair value adjustments to various royalty investments, and $1,201,438 was due to fair value adjustments for shares and warrants held in investee companies, 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.

Movements in the USDCAD foreign exchange rates over the three-month period ended March 31, 2021 contributed to an unrealized loss of $246,890. At March 31, 2021, Flow Capital has approximately 67% of its portfolio in USD denominated investments, and there will be foreign exchange related movements from reporting period to reporting period.

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 March 31, 2021, was as follows:

	# of securities		Cost March 31, 2021		Carrying amount March 31, 2021
Common shares (publicly traded)					
Inner Spirit Holdings Ltd.	12,580,000	$	873,812	$	3,333,700
mCloud Technologies Corp.	50,000		197,500		116,000
Pulse Oil Corp.	601,572		27,071		21,055
Leveljump Healthcare Corp.	4,016,667		1,365,122		991,737
Common shares (not publicly traded)					
Crimson Energy Ltd. (not publicly traded)	1,871,358		299,528		-
Medical Imaging					
Warrants (not publicly traded)					
Boardwalktech Software Corp.	319,540		1,365,572		134,226
Stability Healthcare Inc.	90,152		90,395		149,986
First Crypto Inc.	4,000,000		-		-
Spiridon Technologies Ltd.	6,000,000		-		-
Echobox Ltd.	393,575		80,181		228,603
DirecTech Labs Inc.	354,661		-		-
Wirkn Inc.	1,281,339		205,014		106,977
Wedge Networks Inc.	1,250,000		-		44,382
The Pyure Co.	119,766		157,325		168,959
Total		**$**	**4,661,520**	**$**	**5,295,625**

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 150,000 (post a 10:1 consolidation) mCloud shares received, the Company will earn another 350,000 shares (post consolidation) if certain milestones are met by January 2025. For its investment in Novation, Flow Capital is also entitled to a success fee of 2% of the value of a change of control or business sale transaction.

On May 5, 2021, Sundial Growers Inc. (NASDAQ: SNDL) ("Sundial") and Inner Spirit Holdings Ltd. (CSE: ISH) (OTCQB: INSHF) ("Inner Spirit") announced that they have entered into an arrangement agreement pursuant to which Sundial will acquire all of the issued and outstanding common shares of Inner Spirit for total consideration of approximately $131 million, which translates to an offer price of $0.39 per common share. Flow Capital owns nearly 12.6 million common shares of Inner Spirit, and this potentially represents an additional $1,572,500 in net asset value, on the successful completion of the proposed transaction.

OUTLOOK

Flow Capital targets its investments at profitable or near-profitable emerging growth businesses looking to fuel expansion without the dilution of equity or restrictive covenants of conventional debt. 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.

The onset of COVID-19 has slowed the small and medium business credit market and limited the availability of risk capital. Consequently, companies with an investible surplus, including Flow Capital, are witnessing an increase in deal-flow of new investment opportunities, in addition to follow-on opportunities in existing portfolios.

The Company's investment thesis has a strong bias towards industries experiencing digital transformation or high growth. The digitization of industry and consumer goods and services continues to drive demand for technology enabled solutions and supporting infrastructure. These sectors have been less affected and have, in some situations, benefitted from the impacts of restrictions on social and economic activity, enforced in response to COVID-19.

It is not possible to reliably estimate the length and severity of these developments and the ultimate impact on the financial results and condition of the Company in future periods. The Company continues to review the impact of COVID-19 on an ongoing basis.

As the Company's business model combines recurring monthly revenues with gains on exit events and upside participation in equity, this yields a continuous accretion of cash returns over the duration of an active investment, ensuring sufficient short-term liquidity. The additional gains on an exit event and long-term residual value linked to equity growth in the investee companies, enables the company to attract investors and supplement the investible surplus.

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 cash-flow oriented investments in emerging growth companies. Given that in the majority of our investments, investee companies contract for a cash-on-cash return of a multiple over the invested 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.

SELECTED ANNUAL INFORMATION

The following table provides financial data derived from the Company's audited financial statements since the year ended December 31, 2018:

	Year ended December 31, 2020	Year ended December 31, 2019	Year ended December 31, 2018
Revenues	$ 10,379,187	$ 4,026,370	$ 2,855,939
Total profit/(loss) attributable to shareholders	2,121,739	(11,855,851)	3,030,163
Basic earnings/(loss) per share(1)	0.0600	(0.2991)	0.1155
Diluted earnings/(loss) per share(1)	0.0600	(0.2991)	0.1155
Total assets	37,857,312	35,401,039	56,665,349
Total non-current financial liabilities	14,043,102	14,139,621	5,810,548

1. Based on total earnings / (loss) of continuing and discontinued operations

SUMMARY OF QUARTERLY RESULTS

The following table provides selected unaudited financial information for each quarter since March 31, 2019.

	Three months ended Mar. 31, 2021	Three months ended Dec. 31, 2020	Three months ended Sept. 30, 2020	Three months ended June 30, 2020	Three months ended March 31, 2020	Three months ended Dec. 31, 2019	Three months ended Sept. 30, 2019	Three months ended June 30, 2019
Royalty payment and loan interest income	$ 1,610,068	$ 1,536,576	$ 1,610,792	$ 1,295,928	$ 930,333	$1,233,713	$1,340,289	$1,474,893
Realized gain (loss) on royalty buyouts/sale of investments	344,362	442,409	(750,000)	-	225,970	6,117	807,888	(708,254)
Non-cash foreign exchange and adjustments to fair value	381,826	1,570,992	2,892,643	322,222	(124,591)	586,292	(2,426,450)	(1,356,603)
Other income	4,314	62,131	85,763	216,795	61,225	183,552	751,117	80,020
Total revenue	**2,340,570**	**3,612,107**	**3,839,198**	**1,834,945**	**1,092,937**	**$2,009,674**	**$472,844**	**$(509,944)**
Total profit (loss) for the period attributable to shareholders	1,307,956	617,850	1,845,533	27,895	(369,536)	(10,188,782)	(882,696)	(1,000,862)
Basic earnings / (loss) per share[1]	0.0411	0.0191	0.0561	0.0007	(0.0096)	(0.1296)	(0.0107)	(0.0167)
Diluted earnings /(loss) per share[1]	0.0408	0.0191	0.0561	0.0007	(0.0096)	(0.1296)	(0.0107)	(0.0167)

[1] The Company completed a share alteration in May 2020 resulting in a 1:2 share consolidation. The historical basic and diluted earnings for prior periods have been updated to reflect the post consolidation figures.

The trend in royalty payment income from the three-month period ended June 30, 2019 through to the three-month period ended March 31, 2021, reflects a steady growth of returns from the active investment portfolio, including the impact of buydowns / buyouts and new investments. For the three-month periods ended June 30, 2019, September 30, 2019 and December 31, 2019, results include a profit of $416,045, a profit of $13,680 and a profit of $2,976, respectively, from discontinued operations for a business that was sold in April 2019.

LIQUIDITY AND CAPITAL RESOURCES

At March 31, 2021, the Company's capital resources were $18,967,935 made up as follows:

31,611,577 common shares	$	52,311,806
Warrants		486,624
Contributed surplus		630,415
Accumulated other comprehensive income		(550,101)
Accumulated Deficit		(33,910,809)
Total Equity	**$**	**18,967,935**

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, repay debt, working capital as of May 25, 2021	Amount yet to be used as of May 25, 2021
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	$ 10,000,00	-
13,660,000 Class F units and 3,415,000 Class S units in Priority Return Fund II	October 15, 2020	$13,660,000	$13,660,000	$11,464,450	$1,987,642
2,080,000,000 Class F units and 520,000 Class S units	December 1, 2020	$2,080,000	$2,080,000	-	$2,080,000

The Company redeemed 217,000 of the Class F units of the PRF II on April 16, 2021.

The Company's cash position at May 25, 2021 is approximately $6.7 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 payment and loan interest 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 March 31, 2021 and December 31, 2020 was made up as follows:

	March 31, 2021	December 31, 2020
Cash and cash equivalents	$ 7,258,753	$ 7,141,988
Investments at fair value – current portion	10,391,292	5,925,359
Accounts receivable and accrued income	1,482	1,420
Prepaid expense and other receivable	464,206	524,697
Finance lease receivable – current portion	219,629	325,097
Accounts payable and accrued expenses	(1,561,683)	(2,458,634)
Income tax payable	(499,277)	(398,374)
Prepaid royalty payment and interest income	-	-
Lease liability – current portion	(254,366)	(365,694)
Redeemable debt – current portion	(8,067,923)	(2,620,029)
Total	**$ 7,952,113**	**$ 8,075,830**

In the three-month period ended March 31, 2021, the Company settled its obligations on another lease, prior to the expiry of its full term. Since the terms of early termination of this lease had been agreed in the previous quarter, it was recorded under accounts payable as at December 31, 2020. Consequently, the movement in accounts payable for the quarter includes an amount of $340,200 paid towards the early termination of this lease obligation (refer Note 10 of the Financial Statements for the three-month period ended March 31, 2021). This amount has been included in the statement of cash flows as a financing activity.

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 March 31, 2021 were:

Contractual obligation	Total	Less than 1 year	1-5 years	Expected more than 1 year
Accounts payable and accrued liabilities	$ 1,561,683	$ 1,561,683	$ -	$ -
Lease liability	293,398	254,366	39,032	-
Redeemable debt	15,740,000	8,067,923	-	7,672,077
Total	**$ 17,595,081**	**$ 9,883,972**	**$ 39,032**	**$ 7,672,077**

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, other than receivables and promissory notes, at fair value through profit and loss. Promissory notes, and financial liabilities such as accounts payable are classified and measured at amortized cost.

As at March 31, 2021, the maximum credit exposure for all financial assets excluding cash and cash equivalents and equity securities in investee companies was $24,494,387 (December 31, 2020: $25,447,526). 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 March 31, 2021 was US$17,133,518.

Since January 1, 2015, the Company has classified and subsequently measured all financial assets at fair value., other than receivables and promissory notes. The fair value of investments 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 promissory notes and loan investments are measured using an amortized cost-based approach. During the three-month period ended March 31, 2021, the change in measurements of the royalty agreements acquired and promissory notes receivable, recognized in the total comprehensive income (loss), were $525,750 from adjustments to fair value or royalty investments and $22,602 from the amortization of loan investments.

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. During the three-month period ended March 31, 2021, the impact from adjustments to fair value of equity investments recognized in the total comprehensive income (loss) was $1,201,438.

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.

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 F units.

Other than investments in share purchase warrants, the Company does not hold any financial derivatives at March 31, 2021 or at any time during the three-month period ended March 31, 2021, either for hedging or speculative purposes.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

As at March 31, 2021, Flow Capital had no commitments for material capital expenditures and no off-balance sheet arrangements.

As at March 31, 2021, the only material contractual obligations were the redeemable debt and lease liability (see Liquidity and Capital Resources).

Note 24 of the financial statements for the year ended March 31, 2021, describe the contingent liabilities of the Company.

Under a share purchase agreement dated March 11, 2016 (the "SPA") with Brant Securities Limited ("Brant"), the wholly owned subsidiary, Aston Hill Securities Inc. ("AHS"), was sold to Brant. Under the SPA, the Company agreed to indemnify Brant in respect of certain claims, limited to a maximum amount of $300,000. Two notices of claims have been received in respect of this indemnity arising from two third-party claims against Brant by a former AHS client. The Company, based upon the recourse terms relating to other agreements with Brant, believes that it is unlikely that the Company will have to make a $300,000 payment.

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 relates back to the period prior to December 2016. On January 31, 2019, the Company 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.

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 and who decided not to take up the employment offer by the buyer when the business was sold in April 2019. On March 18, 2021, the Company agreed to settle the claim for a nominal amount.

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 ended December 31, 2020. The final contract payment amount has not been finalized and the Company had recorded a payable of $293,750 on December 31, 2019. As of March 31, 2021, the Company has paid $235,000 and a further $58,750 is payable in 2021.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel

i) Compensation

	Three months ended March 31, 2021	Three months ended March 31, 2020
Short term employee benefits	$ 210,185	$ 223,225
Share-based compensation	27,780	34,005
Consultancy fees	-	82,604
Total	**$ 237,965**	**$ 339,834**

ii) Other transactions

On September 30, 2020, the Company launched Priority Return Fund II LP to raise capital up to $25,000,000 with a first close of $17,075,000 on October 1, 2020 and a second close of $2,600,000 on December 1, 2020. As at December 31, 2020, $1,775,000 of redeemable debt was held by key management personnel and interest of $44,375 was accrued and expensed on the redeemable debt held by the key management personnel. As at March 31, 2021, $1,775,000 of redeemable debt was held by key management personnel.

In 2019, the Company had made a royalty investment of US$500,000 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. This investment was bought out in April 2021.

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.

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 at fair value through profit and loss and promissory notes receivable at amortized cost. 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

Recently issued accounting standards and interpretations, or amendments to existing standards, with future effective dates are either not applicable or not expected to have a significant impact on the Company's financial statements.

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 May 25, 2021, there were issued and outstanding: (a) 31,240,077 Common Shares; (b) 3,202,083 options under the company's stock option plan to acquire common shares, at a weighted average exercise price of $0.33645; and (c) 2,516,345 warrants to acquire 2,516,345 common shares at an exercise price of $0.44.

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 management information circular of the Company dated April 20, 2020, 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

Flow Capital had a non-controlling investment in DionyMed. This investment has been terminated and the Company no longer holds any investments in US cannabis-related companies.

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.
- Investee companies’ businesses may be impacted by a fallout from COVID-19 as regulations enforcing social distancing and lockdown continue to restrict operations and consumer spending. The duration and scope of these restrictions may have an adverse effect on the investee companies.

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.

COVID-19 Impact

It is not possible to reliably estimate the length and severity of the developments related to COVID-19 and the ultimate impact on the financial results and condition of the Company in future period.

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 accounts for its investments in financial assets under IFRS 9. IFRS 9 requires that investments in royalty agreements and convertible debt instruments being classified as subsequently measured at fair value through profit or loss rather than amortized cost. This 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 convertible debt investments are recognized in consolidated comprehensive income (loss) reflecting market conditions. 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 May 25, 2021.

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 and unrealized foreign exchange differences on royalty agreements acquired as long term unrealized gains and losses, realized losses from investments written-off, losses from sale of equity securities are non-recurring and share-based payment expenses as not having a cash impact in the immediate future. 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 March 31, 2021	Three months ended March 31, 2020
Profit (Loss) before income taxes	**$ 1,289,749**	**$ (369,536)**
Depreciation – continuing operations	8,401	42,007
Financing expense	393,500	483,371
EBITDA (EBITDA Loss)	**1,691,650**	**155,842**
Adjustments:		
Unrealized foreign exchange (gain)/loss on royalty agreements	134,423	(568,419)
Adjustments to fair value	(525,750)	970,792
Realized loss from investments written-off	-	-
Realized loss from sale of equity securities	9,510	-
Share-based payment expense	27,780	34,005
Adjusted EBITDA	**$ 1,337,613**	**$ 592,220**

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 March 31, 2021	Three months ended March 31, 2020
Net cash generated by (used in) operating activities	**$ 1,088,929**	**$ 1,930,484**
Investments at fair value – redemptions	(34,433)	(1,525,256)
Investments at fair value – gain realized on shares received on a buyout	(39,500)	(162,500)
Investments at fair value – proceeds from sale of equity investments	(578,874)	(225,970)
Investments at fair value – gain recognized from sale of equity investments	344,362	225,970
Interest paid	(393,500)	(239,833)
Interest payable – movement in period	-	(79,645)
Income tax recoverable/payable - movement in period	18,207	-
Free Cash Flow	**$ 405,191**	**$ (76,750)**

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.