

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

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 December 31, 2022. The information in this MD&A is current as of March 28, 2023 and should be read in conjunction with the audited consolidated financial statements and notes thereto for the year ended December 31, 2022.

The Company's consolidated financial statements and notes thereto for the year ended December 31, 2022 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; loan and royalty investments; 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, 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 on recession watch over the next 12 months; that while interest rates have increased dramatically in the past few quarters, and may increase further over the next few quarters, the subsequent moves will be more tempered; that the Company's existing investees will continue to make royalty and interest 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

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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.

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NEW LOAN INVESTMENTS

On October 12, 2022, the Company closed a US\$1,750,000 (CA\$2,415,350) investment in Prolifiq Software Inc. (“**Prolifiq**”), a SaaS provider that specializes in sales enablement and account planning solutions. Under the terms of the investment, Flow Capital will earn a fixed interest on its investment and received warrants at a strike price of \$0.10 per share.

On May 6, 2022, the Company closed a US\$3,000,000 (CA\$3,864,600) follow-on investment in Echobox Ltd. (“**Echobox**”), a leading AI platform providing machine learning-based automation solutions to the global publishing industry, serving more than 700 publishers in over 50 countries. Under the terms of the investment, Flow Capital will earn a fixed interest on its investment and received warrants at a strike price to be determined by a subsequent equity financing by Echobox.

The Company closed a US\$1,500,000 (CA\$1,906,900) follow-on investment in Jorsek Inc. (“**Jorsek**”), a SaaS software company providing a cloud-based, highly scalable, and configurable knowledge management solution for the technical documentation market. The follow-on investment was closed in two tranches of US\$1,000,000 (CA\$1,277,600) on December 30, 2021, and US\$500,000 (C\$630,300) on January 26, 2022. Under the terms of the investment, Flow Capital will earn a fixed interest on its investment and received warrants at a strike price to be determined by a subsequent equity financing by Jorsek.

LOAN REPAYMENTS, ROYALTY BUYOUTS AND EQUITY EXITS

On November 18, 2022 Jorsek Inc. (“**Jorsek**”) repaid Flow Capital's loan investment of US\$3,500,000 (C\$4,684,750). In addition to the return of the principal invested, Flow also received the accumulated PIK interest and prepayment fees of approximately US\$384,000 (C\$514,000). Including the monthly loan interest payments, PIK interest and prepayment fees received by Flow, this represents a cash-on-cash return of approximately 1.4 times the amount invested over 18 months.

On July 28, 2022 Stability Healthcare (“**Stability**”) exercised its rights to repurchase a portion of its warrants held by Flow Capital for US\$127,600 (C\$164,000).

On May 12, 2022 Medworxs Inc. (“**Medworxs**”) bought out Flow Capital's royalty investment for approximately US\$585,000 (C\$761,000). Including the monthly royalty payments and buyout premium received by Flow, this represents a cash-on-cash return of approximately 3.1 times the amount invested over 5 years.

On April 29, 2022 Performio USA Inc. (“**Performio**”) repaid Flow Capital's loan investment of US\$3,000,000 (C\$3,837,600). In addition to the return of the principal invested, Flow also received success and prepayment fees of US\$1,673,120 (C\$2,140,000) which was triggered by Performio completing a significant transaction resulting in a change of control at the company.

In March 2022, DirecTech Labs Inc. (“**DirectTech**”) was acquired by DirectScale Inc. (“**DirectScale**”). As a part of the transaction, Flow Capital's royalty investment in DirecTech was bought out. DirectScale was subsequently purchased by Exigo Holdings (“**Exigo**”), in December 2022, and Flow received common and preferred share units in Exigo.

FLOW PRIORITY RETURN FUND LP

On November 30, 2022, the Company completed a redemption of the Flow Priority Return Fund II LP (the “**Priority Return Fund II**” or “**PRF II**”) F and G units, triggered by a US\$2,000,000 (C\$2,677,000) repayment of an underlying loan investment. Investors representing 53% of the redemption amount reinvested their share of the redemption and the Company redeemed the balance, in the amount of C\$1,278,331.

On May 10, 2022, the Company completed a redemption of the Flow Priority Return Fund II LP (the “**Priority Return Fund II**” or “**PRF II**”) F and G units, triggered by a US\$3,000,000 (C\$3,889,200) repayment of an underlying loan investment. Investors representing 78% of the redemption amount reinvested their share of the redemption and the Company redeemed the balance, in the amount of C\$866,479.

Concurrently, in May 2022, the Company raised US\$ 415,000 from the issuance of G units in PRF II.

On March 1, 2022 the Company raised US\$ 479,000 from the issuance of G units in PRF II.

SHARE ISSUANCES AND NCIB

On August 16, 2022, Company issued 187,833 Common Shares to certain employees, on the vesting of the first tranche of their previously granted Performance Stock Units.

On June 28, 2022 the Company issued 406,667 Series I Class A Preferred Shares priced at \$3 per share to raise \$1,220,001.

From the date of issuance, the Series 1 Class A Preferred Shares shall accrue dividends at the rate of 9.2%, payable quarterly when declared by the board. The preferred shares have a mandatory redemption at the end of a maximum term of 6 years from initial issuance. On each of the third, fourth and fifth anniversaries, respectively, of the initial issuance, a holder may request that the Company redeem up to one-third (1/3rd) of the Series I Class A Preferred Shares originally acquired by the holder. At any time or times after the 1-year anniversary of the initial issuance, the Company shall be entitled, at its option, to repurchase all or any portion of the Series 1 Class A Preferred Shares. The Company may exercise such repurchase pro rata in respect of all or any lesser number (as determined by the Company in its sole discretion) of the Series 1 Class A Preferred Shares held by each holder of Series 1 Class A Preferred Shares. Upon exercise of the repurchase, each Holder shall have the option to receive either: (i) validly issued, fully paid and non-assessable Common Shares in exchange for such Holder's Series 1 Class A Preferred Shares at the Exchange Rate; or (ii) a cash payment in an amount per Series I Class A Preferred Share equal to the Redemption Price, at the choice of the holder.

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The Company initiated a Normal Course Issuer Bid (the "NCIB") on October 13, 2022. The NCIB will terminate upon the earliest of (i) the Company purchasing 2,598,100 common shares, (ii) the Company providing notice of termination of the NCIB, and (iii) October 12, 2023. The Company has engaged Canaccord Genuity Corp. to act as its broker for the NCIB. The NCIB will be made through the facilities of the TSXV and the purchase and payment for the common shares will be made from the Company's existing working capital at the market price of the applicable securities at the time of acquisition, plus brokerage fees, if any, charged by the Broker. All common shares purchased by the Company under the NCIB will be cancelled.

Between October 13, 2022, and December 31, 2022, the Company purchased 184,500 shares at an average price of \$0.5031, under the NCIB. After the year-ended December 31, 2023, till the date of this MD&A, the Company purchased 182,000 shares at an average price of \$0.5685.

ECONOMIC ENVIRONMENT

The operating environment for businesses has become challenging due to weak global economic conditions, inflationary pressures, continued financial market volatility and general uncertainty on the timing of a recovery. North America and the UK, which are the Company's primary markets, have substantial economic and financial linkages. The risk remains for a persistent recession across these markets and that could have significant impacts, both direct and indirect, on Flow Capital's portfolio companies and the Company itself.

The Company maintains a regular cadence of obtaining financial reports and management updates from the portfolio companies, to assess the impacts of the economic environment, identify early signs of stress, and suggest corrective actions, if needed.

The weakness in the financial markets is also driving investment opportunities for the Company. 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.

GENERAL DESCRIPTION OF THE BUSINESS

Flow Capital makes cashflow-oriented investments using venture debt and revenue-linked royalty financing structures, in growth businesses (individually, an "investee" and collectively the "investees"). A typical investee is a profitable or near-profitable company, experiencing 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. Royalties are typically permanent investments, although 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 royalty contracts provides the potential for 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, as a part of its loan investments the Company generally acquires some form of participation in the equity upside in the growth of the investee, in the form of warrants, 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 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.

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RESULTS OF OPERATIONS

	Three-months ended December 31, 2022	Three-months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Revenues	\$ 2,365,702	\$ 3,310,191	\$ 10,296,116	\$ 10,612,393
Net income	9,089,332	2,263,807	14,510,720	5,597,275
Basic Earnings per share	0.2905	0.0725	0.4640	0.1782
Diluted Earnings per share	0.2765	0.0704	0.4490	0.1734
Book Value per outstanding share ⁽¹⁾	\$ 1.2189	\$ 0.7473	\$ 1.2189	\$ 0.7473
Weighted basic average number of shares outstanding	31,289,176	31,240,077	31,276,125	31,407,914
Weighted diluted average number of shares outstanding	32,872,201	32,148,615	32,314,769	32,282,509

(1) Calculated by taking Total Shareholders' Equity as reported on the Statements of Financial Position over the number of outstanding shares.

Revenue reclassification: Effective January 1, 2022, the Company has revised the presentation of its income statement to exclude foreign exchange gain and losses from revenue and reclassified them as a non-operating expense item. The previously reported comparative figures have been updated accordingly. For the year ended December 31, 2021, after reclassifying the foreign exchange loss of \$185,446, total revenue for the period is restated as \$10,612,393 compared to \$10,426,947, reported previously. There is no change to the net income.

Revenue analysis
Three-months ended December 31, 2022

	Three-months ended December 31, 2022	Three-months ended December 31, 2021	Growth %
Royalty payment and loan interest income	\$ 2,263,790	\$ 1,605,980	40.96
Income from changes in value of financial assets	75,689	1,543,392	(95.09)
Other income (including other interest income)	26,223	160,819	(83.69)
Total revenue	\$ 2,365,702	\$ 3,310,191	(28.53)

Total revenue for the three-month period ended December 31, 2022, was \$ 2,365,702 compared to \$3,310,191 in the three-month period ended December 31, 2021. Loan interest and royalty payment income for the three-month period ended December 31, 2022, was \$2,263,790 representing a 40.96 % increase from the \$1,605,980, earned in the three-month period ended December 31, 2021.

Of the \$2,263,790 loan interest and royalty payment income earned during the three-month period ended December 31, 2022, \$179,733 was contributed by interest earned from new investments acquired in the last twelve months \$1,427,272 from loan interest and royalty payment income from the existing portfolio, \$311,520 from fees on early repayment of loans, and \$ 345,266 on account of loan amortization adjustments.

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. Income from changes in value of financial assets for the three-month period ended December 31, 2022 was \$ 75,689 compared to \$1,543,392 for the three-month period ended December 31, 2021.

The amount of \$75,689 included \$715,343 in adjustments to fair value and \$(639,655) in net realized losses on loan write-offs. Adjustments to fair value comprised \$(1,035,016) from movements in the carried value of royalty investments and \$1,206,316 from the change in the carried values of equity and warrant positions. Also included in income from changes in value of financial assets was \$544,043 from the reversal of a previous allowance for expected losses on loans receivable.

Year ended December 31, 2022

	Year ended December 31, 2022	Year ended December 31, 2021	Growth %
Royalty payment and loan interest income	\$ 7,795,300	\$ 6,091,103	27.98
Income from changes in value of financial assets	2,367,924	4,321,114	(45.20)
Other income (including other interest income)	132,892	200,176	(33.61)
Total revenue	\$ 10,296,116	\$ 10,612,393	(2.98)

Total revenue for the year ended December 31, 2022, was \$10,296,116, a 2.98 % decrease from \$10,612,393 in the year ended December 31, 2021. Loan interest and royalty payment income for the year ended December 31, 2022, was \$7,795,300 representing a 27.98 % increase from the \$6,091,103, earned in the year ended December 31, 2021.

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Of the \$7,795,300 loan interest and royalty payment income earned during the year ended December 31, 2022, \$1,409,165 was contributed by interest earned from new investments acquired in the last twelve months, \$5,384,788 from loan interest and royalty payment income from the existing portfolio, \$349,896 from fees on early repayment of loans, and \$651,452 on account of loan amortization adjustments.

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. Income from changes in value of financial assets was \$2,367,924 for the year ended December 31, 2022, compared to \$4,321,114 for the year ended December 31, 2021.

The amount of \$2,367,924 comprised \$844,950 in adjustments to fair value, \$2,162,628 in net realized gains on sale of investments and \$(639,655) in realized loss from investments written-off. Adjustments to fair value comprised \$(1,106,181) from movements in the carried value of royalty investments and \$2,090,588 from the change in the carried value of equity and warrant positions. Also included in income from changes in value of financial assets was \$(145,803) in an allowance for expected losses on loans receivable, and \$6,347 from an increase in the principal value of a loan on extension.

Operating expense analysis

Total operating expenses for the three months and year ended December 31, 2022, were \$953,378 (2021 - \$932,786) and \$ 3,317,260 (2021 - \$3,084,538), respectively.

Salaries, benefits, and other staffing costs for the three months and year ended December 31, 2022 were \$393,929 (2021 - \$443,653) and \$1,482,244 (2021 - \$ 1,402,539), respectively.

Restructuring costs for the three months and year ended December 31, 2022, were \$ 3,915 (2021 - \$Nil) and \$(20,585) (2021 - \$65,579), respectively, on account of a reversal of a previous provision.

Share-based compensation for the three months and year ended December 31, 2022 was \$26,442 (2021 - \$38,595) and \$ 196,424 (2021 - \$ 119,484), respectively. This represents the expense impact of the vesting schedule for the outstanding options and PSUs as at June 30, 2022. In the three-months ended December 31, 2022, the Company issued 187,833 common shares pursuant to the vesting of the first tranche of the previously awarded Performance Stock Units and 9,000 PSUs were forfeited. \$84,525 provisioned from share-based-compensation expense was reallocated to share capital, on issuance of the common shares. There were no new options or PSUs granted or exercised during this three-month period.

Depreciation expense for the three months and year ended December 31, 2022, was \$ 9,227 (2021 - \$ 14,533) and \$36,909 (2021 - \$35,883), respectively.

Professional fees for the three months and year ended December 31, 2022, were \$184,996 (2021 - \$228,091) and \$741,373 (2021 - \$748,018), respectively. Professional fees for the year primarily comprised legal fees in the amount of \$358,013 and accounting related expenses of \$269,914.

Office and general administrative expenses for the three months and year ended December 31 were \$334,869 (2021 - \$ 207,913) and \$880,895 (2021 - \$713,035), respectively. These expenses were higher compared to the corresponding periods in the previous year primarily due to an increase in insurance related expenses, on account of a general increase in Directors and Officers insurance premiums and customer acquisition costs.

Profit (loss) after taxes for the three months and year ended December 31, 2022, were \$ 9,089,332 (2021 - \$2,263,807) and \$14,510,720 (2021 - \$5,597,275), respectively. The movements in the profit (loss) after taxes was primarily on account of the recognition of the deferred tax asset, higher loan interest and royalty payment income and favourable foreign exchange impacts, offset by fewer buyouts, fair value movements, and higher operating costs, compared to the corresponding periods in the previous year.

Analysis for further items included in the Results of Operations

Financing expense for the three months and year ended December 31, 2022, was \$ 467,610 (2021 - \$414,260) and \$1,798,102 (2021 - \$1,579,447), respectively. The increase in financing expenses compared to the corresponding period of the previous year was due to the net increase in redeemable debt during the year.

Income tax expense for the year ended December 31, 2022, was \$362,938 (2021 - \$1,425,634). The income tax expense is accrued on realized gains on exits and royalty income from investments held by Flow Capital US Corp. The Company has recognized \$7,953,930 (2021 - \$492,225) as the deferred tax recovery on loss carry forwards in Canada.

PORTFOLIO UPDATE

	Three-months ended December 31, 2022	Three-months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Number of active company investments	13	16	13	16
Number of new company investments in period	1*	3	1*	7
Total capital deployed during the period	\$ 2,848,259	\$ 5,614,800	\$ 7,393,627	\$ 23,061,352
Carrying value of investments, at the end of period	\$ 40,809,400	\$ 39,442,728	\$ 40,809,400	\$ 39,442,727

*Follow-on investments in two investees, one loan investment was restructured and one royalty investment was bought out on the acquisition of an investee and Flow received preferred shares in the acquirer as consideration.

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Value of Underlying Financial Assets

Flow Capital's financial assets are measured at fair value (refer to **Note 5** of the financial statements for details). The total estimated fair value of Flow Capital's non-cash financial assets as at December 31, 2022 was \$40,809,400 compared to \$39,442,728 on December 31, 2021.

Year ended December 31, 2022

	Royalty agreements acquired	Equity securities in investee companies	Loans receivable	Total
Balance as at December 31, 2021	\$ 5,728,319	\$ 2,745,510	\$ 30,968,899	\$ 39,442,728
Proceeds from exits	(850,797)	(2,059,627)	(8,578,347)	(11,488,771)
Gain recognized on exits	103,001	2,059,627	-	2,162,628
Losses from investments written off	-	(218,866)	(420,789)	(639,655)
New investments	-	245,070	7,148,557	7,393,627
Royalty earned and payments received- net	39,510	-	(1,193)	38,317
Foreign exchange impact on the investment portfolio	109,182	210,195	1,933,345	2,252,722
Loan amortization income	-	-	802,854	802,854
Adjustment to fair value / expected credit losses	(1,106,181)	2,090,588	(139,456)	844,950
Balance as at December 31, 2022	\$ 4,023,033	\$ 5,072,497	\$ 31,713,869	\$ 40,809,400

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 year ended December 31, 2022, the adjustments to fair value and expected credit losses were \$844,950. Of this amount, \$(1,106,181) was due to fair value adjustments to various royalty investments, \$2,090,588 was due to fair value adjustments for shares and warrants held in investee companies, offset by an allowance for expected credit losses on the loans receivable and an increase in the principal value of a loan on extension of \$(139,456). 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 year ended December 31, 2022, contributed to an unrealized gain of \$2,252,722. At December 31, 2022, Flow Capital has approximately 92 % 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 December 31, 2022, was as follows:

	Cost December 31, 2022	Carrying amount December 31, 2022
Common shares (publicly traded)	\$ 1,350,390	\$ 337,143
Common shares (not publicly traded)	354,448	263,822
Warrants (not publicly traded)	2,705,558	4,471,532
Total	\$ 4,410,396	\$ 5,072,497

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, the Company will earn 116,666 shares if certain milestones are met by January 2025. For its investment in Novation, Flow Capital is also entitled to success fee of 2% of the value of a change of control or business sale transaction, for those assets.

Portfolio Activity

As of December 31, 2022, a summary of the investment portfolio was as follows:

	December 31, 2022	December 31, 2021
	#	#
Investments - fully paying	12	16
Investment – past due	2	1
Investment – delinquent/distressed/in legal process	3	3
Total	17	20

The portfolio comprised 17 royalty and loan investments at December 31, 2022, compared to 20 as at December 31, 2021. One previously active royalty investment was bought out as the investee was acquired and two loans were repaid in the year ended December 31, 2022. One loan was restructured into a new investment through a bankruptcy proceeding. The Company completed

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

one new loan investment and two follow-on loan investments during the period and one loan investment due on Jan 31, 2022, was extended for up to another twelve months at a higher interest rate, per the terms of the original agreement.

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 launched operations in Q2 2021.

Past due for payments outstanding on investments

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

	December 31, 2022	September 30, 2022	June 30, 2022	March 31, 2022	December 31, 2021
Past due					
- 30 days or less	\$ 20,316	\$ 40,182	\$ 19,918	\$ 35,358	\$ 15,625
- 31 to 60 days	20,316	31,250	31,250	31,250	31,250
- 61 days or more	-	312,500	265,625	218,750	171,875
Total	\$ 40,632	\$ 383,932	\$ 316,793	\$ 285,358	\$ 218,750

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 year ended December 31, 2022;

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 has security for approximately US\$900,000 of the claim. On March 12, 2021, the wholly-owned subsidiary voluntarily filed for Chapter 7 bankruptcy in Montana. In September 2021, the Company received an interim distribution of US\$ 75,000. The Canadian parent company of Lattice has not entered Bankruptcy proceedings and Flow Capital continues to pursue its 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. In February 2022, the Ontario Superior Court of Justice ruled in the Company's favour and granted the relief sought by Flow. In November 2022, the Court of Appeal for Ontario reversed the ruling of the Ontario Superior Court of Justice. The Court instructed that the determination of the amount owing to Flow is to be performed by the Superior Court. A date for that is not yet set. Flow Capital is vigorously pursuing the full amount due to Flow, through the courts, with all its resources.

In September 2021, the Company initiated legal proceedings against Mera Development Corp and Mera Food Group Inc. ("Mera Group") for continued default on its payment obligations. Flow Capital is vigorously pursuing the full amount due to Flow, with all its resources.

In September 2022, one loan investee company filed a Notice of intention to make a proposal pursuant to section 50.4(1) of the Bankruptcy and Insolvency Act (the "BIA"). On October 5, 2022, Flow Capital formed 1000330141 Ontario Inc, ("NewCo") a corporation incorporated under the laws of Ontario, as a wholly owned subsidiary. NewCo was created to hold the loan investment being restructured through a bankruptcy process, where Flow Capital was the senior secured creditor. The Company assigned its portfolio investment to NewCo and provided additional working capital in exchange for new loan notes from NewCo. NewCo's creditor bid was awarded the assets of the original investee. In December 2022 NewCo raised additional equity capital and subsequently Flow Capital restructured its loan security and sold its common shares in NewCo.

OUTLOOK

Flow Capital targets its investments at near-profitable high 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 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. The current operating environment for businesses has become more challenging due to weak global economic conditions, inflationary pressures, continued financial market volatility and general uncertainty on the timing of a recovery.

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 the macro-economic environment on its portfolio and target investee companies, on an ongoing basis.

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

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 a number 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, 2020:

	Year ended December 31, 2022	Year ended December 31, 2021	Year ended December 31, 2020
Revenues	\$ 10,296,116	\$ 10,612,393	\$ 10,379,187
Total profit/(loss) attributable to shareholders	14,510,720	5,597,275	2,121,739
Basic earnings/(loss) per share ⁽¹⁾	0.4640	0.1782	0.0600
Diluted earnings/(loss) per share ⁽¹⁾	0.4490	0.1734	0.0600
Total assets	58,682,422	44,018,033	37,857,312
Total non-current financial liabilities	7,317,339	16,376,904	14,043,102

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

SUMMARY OF QUARTERLY RESULTS

The following table provides selected unaudited financial information for the past 8 quarters.

	Three- months ended Dec. 31, 2022	Three- months ended Sept. 30, 2022	Three- months ended Jun. 30, 2022	Three- months ended Mar. 31, 2022	Three- months ended Dec. 31, 2021 (Re- classified)	Three- months ended Sept. 30, 2021 (Re- classified)	Three- months ended June 30, 2021 (Re- classified)	Three- months ended Mar. 31, 2021 (Re- classified)
Royalty payment and loan interest income	\$ 2,263,790	\$ 1,676,567	\$ 2,089,569	\$ 1,765,374	\$ 1,605,980	\$ 1,182,866	\$ 1,692,189	\$ 1,610,068
Income from changes in values of financial assets	75,689	(1,006,139)	1,197,569	2,100,805	1,543,392	(1,444,690)	3,352,299	870,112
Other income	26,223	(91)	104,653	2,107	160,819	(62,173)	97,216	4,314
Total revenue	2,365,702	670,337	3,391,791	3,868,286	3,310,191	(323,997)	5,141,705	2,484,494
Total profit (loss) for the period attributable to shareholders	9,089,332	502,663	2,568,783	2,349,942	2,263,807	(1,040,381)	3,065,893	1,307,956
Basic earnings / (loss) per share ¹	0.2905	0.0160	0.0822	0.0752	0.0725	(0.0333)	0.0979	0.0411
Diluted earnings / (loss) per share ¹	0.2765	0.0158	0.0800	0.0744	0.0704	(0.0333)	0.0948	0.0408

The royalty and interest payment income has grown since the three-month period ended December 31, 2020. The decline in the three-month period ended December 31, 2021, was primarily on account of a timing difference between buyouts at the end of the previous quarter and a new investment closed towards the end of the current quarter, which led to a drop in revenue during the quarter. This recovered as more capital was deployed in the subsequent quarters. The increases in the three-month periods ended June and December 2022 were higher than the average due to one-time prepayment fees on early repayment of loans.

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022
LIQUIDITY AND CAPITAL RESOURCES

At December 31, 2022, the Company's capital resources were \$38,140,427, made up as follows:

31,290,610 common shares	\$	52,164,711
Warrants		477,496
Contributed surplus		798,504
Accumulated other comprehensive income		(225,030)
Accumulated Deficit		(15,075,254)
Total Equity	\$	38,140,427

The Company's cash position at March 28, 2023 is approximately \$9.9 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. Cash flow 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.

WORKING CAPITAL

Flow Capital's working capital at December 31, 2022 and December 31, 2021 was made up as follows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	\$9,560,610	\$ 4,144,671
Investments at fair value – current portion	17,066,876	4,765,559
Prepaid expense and other receivable	344,695	367,401
Accounts payable and accrued expenses	(1,013,730)	(962,708)
Income tax payable	(568,944)	(1,809,171)
Lease liability – current portion	(22,554)	(21,490)
Redeemable debt – current portion	(11,619,428)	(1,500,758)
Total	\$ 13,747,525	\$ 4,983,504

Based upon the available cash resources and other existing liquid assets, the Company has the capability to meet its obligations.

A summary of the contractual and other obligations as at December 31, 2022 were:

Contractual obligation	Total	Less than 1 year	1-6 years	Expected more than 1 year
Accounts payable and accrued liabilities	\$ 1,013,730	\$ 1,013,730	\$ -	\$ -
Lease liability	22,554	22,554		-
Priority Return Fund II LP	17,716,766	11,619,428	6,097,338	-
Series I Preferred Shares	1,220,001		1,220,001	
Total	\$ 19,973,051	\$ 12,655,712	\$ 7,317,339	\$ -

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 December 31, 2022, the maximum credit exposure for all financial assets excluding cash and cash equivalents and equity securities in investee companies was \$35,769,345 (December 31, 2021: \$36,698,547). The Company has foreign currency exposures to United States dollars. The transaction exposure will be minimized by converting all foreign currency to Canadian dollars or using the funds for investments made in the United States. The Company is aware that a translation exposure exists and will continue to monitor the impact on its reported results and take the required hedging action when management considers it necessary. The foreign exchange exposure at December 31, 2022 was US\$ 29,283,984 (December 31, 2021: US\$26,509,355).

Since January 1, 2015, the Company has classified and subsequently measured all financial assets at fair value., other than loan 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 year ended December 31, 2022, the change in measurements of the royalty agreements

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

acquired and promissory notes receivable, recognized in the total comprehensive income (loss), were \$(1,106,181) from adjustments to fair value of royalty investments, \$(145,803) in provisions for losses on loan investments and \$6,347 from an increase in the principal value of a loan on extension.

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 year ended December 31, 2022, the impact from adjustments to fair value of equity investments recognized in the total comprehensive income (loss) was \$2,090,588.

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.

Other than investments in share purchase warrants, at December 31, 2022 the Company does not hold any other financial derivatives at December 31, 2022, either for hedging or speculative purposes.

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

As at December 31, 2022, Flow Capital had no commitments for material capital expenditures and no off-balance sheet arrangements.

As at December 31, 2022, the only material contractual obligation was the redeemable debt (see Liquidity and Capital Resources).

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel

i) Compensation

	Three-months ended December 31, 2022	Three-months ended December 31, 2021	Year ended December 31, 2022	Year ended December 31, 2021
Short term employee benefits	\$ 201,441	\$ 205,991	\$ 822,091	\$ 834,294
Share-based compensation	25,229	38,595	180,630	124,662
Total	\$ 226,670	\$ 244,586	\$ 1,002,721	\$ 958,956

ii) Other transactions

On September 30, 2020, the Company launched Priority Return Fund II LP. As at December 31, 2022, \$1,853,678 (December 31, 2021 \$1,936,444) of the redeemable debt was held by key management personnel and a company with common directors, and interest of \$ 45,215 and \$180,988 was accrued and expensed on that redeemable debt, during the three months and year ended December 31, 2022 (2021: \$70,906 and \$198,490), respectively.

On August 16, 2022, Company issued 175,000 Common Shares to two Directors and an Officer, on the vesting of the first tranche of their previously granted Performance Stock Units.

On August 31, 2022, the Company advanced loans to two Directors in the total amount of \$26,559. For the year ended December 31, 2022, the Company accrued interest income on these loans in the amount of \$244 at the CRA prescribed rate.

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.

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

Management is required to make estimates when preparing the financial statements. Estimates may include 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 the estimated allowance for expected credit losses ("ECL") on loan investments recorded at amortized cost.

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.

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.

An allowance for expected credit losses ("ECL") on loans recorded at amortized cost, is maintained based on an assessment of the risk of various counterparties to financial instruments failing to meet their contractual obligations and to estimate a reasonable amount to be maintained as or, to assess if the collateral offered by the security position held by the Company is sufficient and if needed, record an impairment. Changes to the ECL are recorded in revenue from financial assets. Any changes in the estimates or inputs utilized to determine the ECL allowance could result in a significant impact on the Company's future operating results or on other components of book value.

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 2,252,252 Series I Class A preferred shares with a face value of \$3 per share, and no other classes of shares. As of March 28, 2023, there were issued and outstanding: (a) 31,158,610 Common Shares; (b) 406,667 Series I Class A Preferred Shares; (c) 3,125,000 options under the company's stock option plan to acquire common shares, at a weighted average exercise price of \$0.3658; (d) 939,167 Performance Stock Units tied to certain performance and market based metrics for vesting, and (e) 2,469,145 warrants to acquire 2,469,145 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 September 2, 2022, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

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 / to which loans are advanced. The ability to meet operating expenses in the long-term will be largely dependent on the loan interest and royalty payments received from investee companies and realized gains on exits 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 and the loan interest payments will generally be based as a percentage of the principal amount advanced. 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 loan interest and 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 advanced funds against promissory notes and loan agreements to, and purchased royalties from, a small number of investee companies to date. While the intention is to purchase a significant number of royalties from and make promissory notes investments in 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 and Promissory Notes

While the Company believes that the Company has structured, and will continue to structure, the royalty purchase agreements and promissory notes in such a way as to encourage payment of royalties and interest and discourage default, there is no guarantee that investee companies will not default on their royalty and interest 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.

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 has some history of earnings from operations. Due to the nature of the Company's business, there can be no assurance that the Company will always 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS – DECEMBER 2022

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 may be required to conduct additional equity financings in order to finance additional loan investments and royalty purchases and develop the Company's business as currently planned, if suitable credit facilities are not available. 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.

Ability to Negotiate Additional Royalty Purchases and Promissory Notes

A key element of the Company's growth strategy involves purchasing additional royalties from and writing promissory notes to new investee companies. The Company's ability to identify investee companies and acquire additional royalties and promissory notes 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 Royalty Buyout Option and Prepayment Option on Loans

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. Most loan agreements with investee companies contain or will contain prepayment options which allow investee companies to prepay the loan by paying an interest penalty.

While the buyout or prepayment provisions are designed to produce enhanced returns, if the Company has miscalculated the value of a buyout or prepayment option relative to the ongoing value of a lost royalty or loan interest 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 or loan interest stream is not replaced with a new royalty or loan interest 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 and making loan investments. 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.

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- Investee companies may experience reduced revenues due to an inability to meet regulatory requirements or may experience losses of revenues due to unforeseeable changes in regulations imposed by various levels of government.
- Investee companies may rely on government or other subsidy programs for revenue or profit generation. Changes or elimination of such programs may have an adverse effect on the company.
- Investee companies may derive some of their revenues from non-Canadian sources and may experience negative financial results based on foreign exchange losses.

Impact of Regulation and Regulatory Changes

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

Foreign Account Tax Compliance

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

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

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

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

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

Tax Matters

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

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

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

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

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

COVID-19 Impact

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

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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 ratably 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 to 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.

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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 March 28, 2023.

ADDITIONAL INFORMATION

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