Flow Capital Corp.

Consolidated Financial Statements

For the year ended December 31, 2022

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Flow Capital Corp.

Opinion

We have audited the consolidated financial statements of Flow Capital Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2022 and 2021, and the consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We have determined the matters described below to be key audit matters to be communicated in our auditor's report.

<table>
<tr><th>KEY AUDIT MATTER</th><th>HOW THE MATTER WAS ADDRESSED IN THE AUDIT</th></tr>
<tr><td>Recognition of deferred tax assets

We draw attention to Note 14 to the financial statements. The Company has recognized deferred tax assets of $7,941,393 relating to its Canadian non-capital losses and other deductible temporary differences. In recognizing these deferred tax assets, the Company has assessed that it is probable that future taxable profit will be available against which the non-capital losses and deductible temporary differences can be utilized.

We considered this a key audit matter due to:
the significant impact that the recognition of these deferred tax assets has on the Company’s total assets and net income; and
the significant judgment and subjectivity required by management when estimating the future taxable profits that will be generated by the Company and whether the Company’s non-capital losses and other deductible temporary differences can be utilized to reduce the income taxes that would otherwise be payable on these future taxable profits.
This has resulted in a high degree of auditor judgment and audit effort in performing procedures related to this matter.</td><td>Our approach to addressing the matter included the following procedures, among others:
we evaluated the appropriateness of the Company’s projected future taxable income by comparing to historical financial performance and historical growth rates, assessing the availability of additional financing and assessing the opportunities for additional investments;
we performed a sensitivity analysis to determine the impact on the projected future taxable income if a lower growth rate was used in comparison to the growth rate applied by management; and
we involved tax professionals with specialized skills and knowledge who assisted us in assessing that the non-capital losses and other deductible temporary differences had been calculated accurately and could be utilized to reduce the income taxes that would otherwise be payable on future taxable profits.</td></tr>
<tr><td>Allowance for expected credit losses on loans receivable

We draw attention to Notes 6, 7 and 10 to the financial statements. As at December 31, 2022, the Company has recognized an expected credit loss allowance of $454,834 relating to its loan receivable balance of $32,168,703. The Company recognizes an allowance for expected credit losses based on an assessment of the risk of various counterparties to financial instruments failing to meet their contractual obligations and the expected loss given an event of default.

We considered this a key audit matter due to:
the significant potential impact that the allowance for expected credit losses could have on the Company’s total assets and net income; and</td><td>Our approach to addressing the matter included the following procedures, among others:
we evaluated management’s classification of its loans receivables and whether there had been a significant increase in credit risk by testing that the borrowers were current with their loan payments during the reporting period and assessed the borrowers’ recent financial performance and financial condition; and
we assessed the potential value of collateral offered by the security position held by the Company and the extent to which it would reduce the quantum of the loss in the event of default.</td></tr>
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<td>• the significant management estimates and judgments required to determine the inputs used in the Company’s expected credit loss model and that these estimates and judgments are subjective.

This has resulted in a high degree of auditor judgment and audit effort in performing procedures relating to this matter.</td>
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<tr>
<td>Value of investments classified at fair value through profit or loss

We draw attention to Notes 6, 7 and 10 to the financial statements. As at December 31, 2022, the Company holds $9,095,530 of investments that are classified at fair value through profit or loss. These investments consist of royalty investments, common shares that are publicly traded, common shares that are not publicly traded, and share purchase warrants. The common shares that are publicly traded are measured based on a quoted share price. The other investments classified at fair value through profit or loss are measured using various valuation models and techniques, including:
• Discounted cash flows models;
• Black-Scholes option pricing models;
• Revenue multiples; and
• Implied prices from historical transactions, adjusted where applicable.

We considered this a key audit matter due to:
• the significant carrying value of the Company’s investments classified at fair value through profit or loss and the sensitivity a change in an input used in the applicable valuation model could have on the Company’s total assets and net income; and
• the significant management estimates and judgments required to determine the inputs used in the valuation models and that these estimates and judgments are subjective.

This has resulted in a high degree of auditor judgment and audit effort in performing procedures relating to this matter.</td>
<td>With the assistance of valuation experts, our approach to addressing the matter included the following procedures, among others:
• we assessed the reasonableness of the inputs used by management in estimating the fair value of its investments, including:
  o where appropriate, developing a range of independent estimates for various inputs, such as discount rates and share price volatilities, and comparing those ranges to the inputs selected by management,
  o testing the reasonableness of growth rates and other unobservable inputs by comparing these inputs to historical information and other applicable data, and
  o testing the accuracy of observable inputs used by agreeing to the applicable source; and
• we evaluated the appropriateness of the valuation models and techniques selected by management.</td>
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Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Matthew Gosden.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

March 28, 2023

Flow Capital Corp.

Flow Capital Corp.
Consolidated Statements of Financial Position

(Canadian dollars)

	Note		December 31, 2022		December 31, 2021
Assets					
Current Assets					
Cash and cash equivalents	8	$	9,560,610	$	4,144,671
Investments – current portion	10		17,066,876		4,765,559
Prepaid expenses and other receivables	9		344,695		367,401
Total Current Assets			**26,972,181**		**9,277,631**
Non-Current Assets					
Property and equipment	11		26,324		63,233
Deferred Tax Asset	14		7,941,393		-
Investments – non-current portion	10		23,742,524		34,677,169
Total Non-Current Assets			**31,710,241**		**34,740,402**
Total Assets		**$**	**58,682,422**	**$**	**44,018,033**
Liabilities and Shareholders' Equity					
Current Liabilities					
Accounts payable and accrued liabilities	12	$	1,013,730	$	962,708
Income tax liability			568,944		1,809,171
Lease liability – current portion	13		22,554		21,490
Redeemable debt – current portion	15		11,619,428		1,500,758
Total Current Liabilities			**13,224,656**		**4,294,127**
Non-Current Liabilities					
Lease liability – non-current portion	13		-		22,831
Deferred tax liability			-		12,537
Preferred shares	16		1,220,001		-
Redeemable debt – non-current portion	15		6,097,338		16,341,536
Total Non-Current Liabilities			**7,317,339**		**16,376,904**
Total Liabilities		**$**	**20,541,995**	**$**	**20,671,031**
Shareholders' Equity (Note 16)					
Common shares		$	52,164,711	$	52,144,024
Warrants			477,496		486,624
Contributed surplus			798,504		713,964
Accumulated other comprehensive income (loss)			(225,030)		(384,277)
Accumulated deficit			(15,075,254)		(29,613,333)
Total Shareholders' Equity			**38,140,427**		**23,347,002**
Total Liabilities and Shareholders' Equity		**$**	**58,682,422**	**$**	**44,018,033**

See accompanying notes to the consolidated financial statements.

Approved on behalf of the Board of Directors on March 28, 2023:

"Vernon Lobo"
Vernon Lobo, Director

"Alan Torrie"
Alan Torrie, Director

Flow Capital Corp.
Consolidated Statements of Comprehensive Income

(Canadian dollars)

	Note	Year ended December 31, 2022	Year ended December 31, 2021 (Re-presented Refer Note 2)
Revenues			
Income from financial assets			
Royalty and loan interest income	17	$ 7,795,300	$ 6,091,103
Income from changes in values of financial assets	17	2,367,924	4,321,114
Total income from financial assets		10,163,224	10,412,217
Other interest, fee income and gains	17	132,892	200,176
Total Revenues		**10,296,116**	**10,612,393**
Operating Expenses			
Salaries, benefits and staffing costs	19	$ 1,482,244	$ 1,402,539
Restructuring costs	19	(20,585)	65,579
Share-based compensation	20	196,424	119,484
Depreciation		36,909	35,883
Professional fees		741,373	748,018
Office and general administrative		880,895	713,035
Total Operating Expenses		**3,317,260**	**3,084,538**
Operating Income		**$ 6,978,856**	**$ $7,527,855**
Financing (expense)	21	(1,798,102)	(1,579,447)
Foreign exchange gains and (losses)	18	1,738,974	(185,446)
Other expense recovery	12	-	767,722
Income before income taxes		**6,919,728**	**6,530,684**
Income Taxes			
Current income tax expense	14	$ (362,938)	$ (1,425,634)
Deferred tax recovery	14	7,953,930	492,225
Total Income Tax		**$** 7,590,992	**$ (933,409)**
Net Income		**$ 14,510,720**	**$ 5,597,275**
Other comprehensive income that may be subsequently reclassified to profit or loss			
Foreign currency translation		159,247	52,866
Comprehensive Income		**$ 14,669,967**	**$ 5,650,141**
Earnings per share (Note 22)			
Earnings per share			
Basic earnings per share		$ 0.4640	$ 0.1782
Diluted earnings per share		$ 0.4490	$ 0.1734

See accompanying notes to the consolidated financial statements.

Flow Capital Corp.
Consolidated Statements of Changes in Equity

(Canadian dollars)

	Note	Number of common shares	Common share capital	Accumulated other comprehensive loss	Warrants	Contributed surplus	Accumulated deficit	Total
Balance, January 1, 2021		**32,155,077**	**$ 52,538,126**	**$ (437,143)**	**$ 486,624**	**$ 656,612**	**$ (35,272,740)**	**$ 17,971,479**
Share-based compensation	16	-	-	-	-	57,352	62,132	119,484
Treasury shares cancelled	16	(915,000)	(391,652)	-	-	-	-	(391,652)
Share cancellation cost		-	(2,450)	-	-	-	-	(2,450)
Foreign currency translation		-	-	52,866	-	-	-	52,866
Net income for the year		-	-	-	-	-	5,597,275	5,597,275
Balance, December 31, 2021		**31,240,077**	**$ 52,144,024**	**$ (384,277)**	**$ 486,624**	**$ 713,964**	**$ (29,613,333)**	**$ 23,347,002**
Balance, January 1, 2022		**31,240,077**	**$ 52,144,024**	**$ (384,277)**	**$ 486,624**	**$ 713,964**	**$ (29,613,333)**	**$ 23,347,002**
Shares issued								
PSUs vested		187,833	84,525	-	-	(84,525)	-	-
Warrants exercised		47,200	29,896	-	(9,128)	-	-	20,768
Share-based compensation	16	-	-	-	-	169,065	27,359	196,424
Treasury shares cancelled	16	(184,500)	(92,803)	-	-	-	-	(92,803)
Share cancellation cost		-	(931)	-	-	-	-	(931)
Foreign currency translation		-	-	159,247	-	-	-	159,247
Net income for the year		-	-	-	-	-	14,510,720	14,510,720
Balance, December 31, 2022		**31,290,610**	**$ 52,164,711**	**$ (225,030)**	**$ 477,496**	**$ 798,504**	**$ (15,075,254)**	**$ 38,140,427**

See accompanying notes to consolidated financial statements.

Flow Capital Corp.

Consolidated Statements of Cash Flows

(Canadian dollars)

	Note	Year ended December 31, 2022	Year ended December 31, 2021
Cash flows from operating activities			
Net income		$ 14,510,720	$ 5,597,275
Adjustments for non-cash items			
Share-based compensation		196,424	119,484
Depreciation		36,909	35,883
Reversal of provision		-	(375,440)
Adjustments relating to investments at carrying value			
Unrealized foreign exchange loss		(1,581,558)	641,901
Adjustments to fair value and expected credit losses		(844,950)	1,276,209
Realized loss on investments written-off		639,655	3,106,800
Realized (gain) on sale of investments		(2,162,628)	(8,704,123)
New investments and loan advances		(7,338,706)	(23,061,352)
Loan amortization income		(802,854)	(226,273)
Royalty and loan interest earned in excess of cash received		(38,317)	(221,065)
Proceeds received on sale of shares, royalty buyouts and loan repayments		11,438,304	17,821,618
Realized gain on equity investments received on buyout		-	39,500
Other Adjustments			
Financing expense		1,798,102	1,579,447
Income tax expense (recovery)	14	(7,590,992)	933,409
Income tax paid		(1,723,101)	-
Changes in working capital items	24	45,437	(865,844)
Net Cash Flows from (used in) Operating Activities		**6,582,445**	**(2,302,570)**
Cash flows from financing activities			
Common shares repurchased for treasury		$ (93,734)	$ (394,102)
Lease liability payments		(21,767)	(706,888)
Interest and dividends paid		(1,769,811)	(1,710,614)
Advance from redeemable debt		2,173,122	11,084,199
Redemption of redeemable debt		(3,161,131)	(9,284,146)
Preferred shares issued		1,220,001	-
Common shares issued		20,768	-
Net Cash flows used in Financing Activities		**(1,632,553)**	**(1,011,550)**
Cash flows from investing activity			
Purchase of property and equipment		$ -	$ (8,293)
Finance lease receivable payments		-	325,097
Net Cash flows from Investing Activities		-	**316,804**
Foreign exchange impact on cash		**$ 466,047**	**$ -**
Net increase in cash during the period		**5,415,939**	**(2,997,317)**
Cash and cash equivalents, beginning		4,144,671	7,141,988
Cash and cash equivalents, ending	8	**$ 9,560,610**	**$ 4,144,671**

See accompanying notes to the consolidated financial statements.

In Canadian dollars, for the year ended December 31, 2022

1. Corporate information and reporting entity

Flow Capital Corp. ("Flow Capital", or "the Company") is a company under the jurisdiction of the laws of the Province of British Columbia, Canada, and is domiciled in Canada. The common shares of the Company are traded on the TSX Venture Exchange ("TSXV") under the symbol FW. The registered and records office of the Company is Suite 2600, Three Bentall Centre, 595 Burrard Street, Vancouver, British Columbia, V7X 1L3. The head office of the Company is Suite 3002, 1 Adelaide Street East, Toronto, Ontario, M5C 2V9.

The following is a summary of the list of material subsidiaries:

Legal name	Legal status	Ownership interest %
Flow Capital US Corp.	Subsidiary of Flow Capital, US	100
Flow Investment Services Corp. (formerly LOGiQ Asset Management Ltd.)	Subsidiary of Flow Capital, Canada	100
Flow Investment Holdings Corp. (formerly 2705535 Ontario Inc.)	Subsidiary of Flow Capital, Canada	100
LOGiQ Capital 2016	Subsidiary of Flow Capital, Canada	100
Flow Priority Return Fund II LP	Controlled by Flow through contractual arrangements, Canada	20
Tuscarora Capital Inc.	Subsidiary of Flow Capital, Canada	100
Flow Capital Partnership Holding Corp. (formerly 2535706 Ontario Inc.)	Subsidiary of Flow Capital, Canada	100

On September 30, 2020, Flow Capital formed Flow Priority Return Fund II LP (the "Priority Return Fund II" or "PRF II") and under the limited partnership agreement, Flow Investment Services Corp. the Company's wholly owned subsidiary was appointed as the general partner. The Company has assessed that based on the terms of the limited partnership agreement, the Company has a substantial interest in the variable returns and has the current ability to direct the activities that most significantly affect these returns. Based upon this assessment, the Company has determined that the Priority Return Fund II is controlled by the Company and must be consolidated in the financial statements of Flow Capital.

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 a portfolio investment being restructured though a bankruptcy process where Flow Capital is 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 Flow Capital sold its common shares in NewCo.

2. Basis of presentation

The financial statements have been prepared on a historical cost basis, except for cash and cash equivalents, and investments at fair value that have been measured at fair value. The presentation currency for these financial statements is the Canadian dollar which is also the functional currency of the Company. The functional currency of the Company's subsidiary Flow Capital US Corp. is United States dollar and the financial statements of the subsidiary are translated from its functional currency to Canadian dollars. Amounts are stated in and recorded to the nearest Canadian dollar except where otherwise indicated.

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 net income.

Statement of compliance

These consolidated financial statements have been prepared based on the principles of International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations by the IFRS Interpretations Committee.

The financial statements were approved and authorized by the Board of Directors on March 28, 2023.

3. Summary of significant accounting policies

(A) Basis of consolidation

The financial statements of all entities controlled by the Company are included in the consolidated financial statements from the date control commenced. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company's subsidiaries have the same reporting date as the Company. Intra-group balances and transactions are eliminated on consolidation.

(B) Foreign currency translation

Transactions and balances

Transactions in foreign currencies are initially recorded by the Company at the foreign currency rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rate of exchange at the reporting date. All differences are taken to the consolidated statements of comprehensive income and loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

Translation to the Presentation Currency

The financial statements of the foreign subsidiary are translated from its functional currency to Canadian dollars. Assets and liabilities are translated at the closing exchange rate at the statement of financial position date, and income and expenses are translated using the average exchange rates. The accumulated gains or losses arising from translation of functional currencies to the presentation currency, are included as a separate component of Other Comprehensive Income within equity.

(C) Revenue recognition

Income from investments at fair value

i) Royalty payment and loan interest income

Royalty payment and loan interest income are recognized in the statement of comprehensive income when earned and collection is probable.

ii) Adjustments to fair value

Adjustments to fair value of the investments measured at fair value through profit and loss is recognized in the statement of comprehensive income under Adjustments to fair value. The change in the fair value consists of gains or losses both realized and unrealized in the fair value of the investment.

iii) Realized gain (loss) from sale of investments and realized loss from investments written-off

Realized gain (loss) from sale of investments is recognized in the statement of comprehensive income when an investee buyout occurs or when gains or losses are incurred on the sale of equity instruments. Realized loss from investments written-off is recognized at the date the investment is written off when there is no expectation of any recovery in the future.

iv) Allowance for expected credit losses

An allowance for expected credit losses (“ECL”) 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.

Other interest, fee income and gains (losses)

Other interest income includes interest income earned on short term money market investments. Other interest income, one-time fee income and gains (losses) is accrued in the statement of comprehensive income when earned and is presented in Other interest, fee income and gains (losses).

(D) Taxes

Current income tax

Current income tax assets and liabilities for the respective period are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, by the reporting date, in the countries where the Company operates and generates taxable income.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized.

The carrying amount of any deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred tax relate to the same taxable entity and the same taxation authority.

(E) Financial instruments

(i) Financial assets

Initial recognition and measurement

A financial asset is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. On initial recognition, a financial asset is classified as measured at amortised cost or fair value through profit or loss. A financial asset is measured at amortised cost if it meets the conditions that i) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows, ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, and iii) is not designated as fair value through profit or loss.

For investments at fair value, the Company has determined that these assets must be classified as financial assets measured at fair value through profit or loss as the contractual terms of the agreements do not give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. The Company also classifies equity-accounted investments and cash and cash equivalents as fair value through profit and loss.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets measured at fair value through profit and loss are carried in the statement of financial position at fair value with changes in fair value therein, including any royalty and loan payment income recognized in the statement of comprehensive income and loss. Cash and cash equivalents and equity-accounted investments are classified within these categories.

Financial assets measured at amortized cost

A financial asset is subsequently measured at amortized cost, using the effective interest method and net of any impairment allowance, if:

- the asset is held within a business whose objective is to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest.

Accounts receivable and promissory notes receivable are classified as measured at amortized cost.

(ii) Derecognition

A financial asset or, where applicable a part of a financial asset or part of a group of similar financial assets is derecognized when:

- the contractual rights to receive cash flows from the asset have expired; or
- the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

(iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities subsequently measured at amortized cost. The Company determines the classification of its financial liabilities at initial recognition. The Company's financial liabilities are accounts payable and accrued liabilities, redeemable debt and preferred share liability, which are recognized on an amortized cost basis.

(iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset, and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(v) Fair value of financial instruments

Fair value is determined based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Fair value is measured using the assumptions that market participants would use when pricing an asset or liability. Typically, fair value is determined by using quoted prices in active markets for identical or similar assets or liabilities. When quoted prices in active markets are not available, fair value is determined using valuation techniques that maximize the use of observable inputs. When observable valuation inputs are not available, significant judgement is required through determining the valuation technique to apply, the valuation techniques such as discounted cash flow analysis and selecting inputs. The use of alternative valuation techniques or valuation inputs may result in a different fair value. A description of the fair value methodologies and assumptions by type of asset is included in Note 6.

(vi) Transaction costs

Transaction costs for financial instruments classified as fair value through profit and loss are recognized as an expense in professional fees, in the period the cost was incurred. For all financial instruments measured at amortized cost, the transaction costs are included in the initial measurement of the financial asset or financial liability and are amortized using the effective interest rate method over a period that corresponds with the term of the financial instruments.

(vii) Embedded Derivatives

For financial liabilities measured at amortized cost, under certain conditions, an embedded derivative must be separated from its host contract and accounted for as a derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract. For financial assets at fair value through profit or loss, any embedded derivatives are not separated from its host contract.

(F) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term deposits with an original maturity of three months or less.

The Company uses the indirect method of reporting cash flow from operating activities.

(G) Provisions

Provisions are recognized when the Company has a present obligation, legal or constructive, as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized in the statement of comprehensive income or loss.

(H) Earnings per share

Basic earnings per share is calculated by dividing the income or loss for the period by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating the dilutive effect of the outstanding stock options and other dilutive securities. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted income or loss per share assumes that the proceeds to be received on the exercise of dilutive share options are used to repurchase common shares at the average market price during the period.

(I) Share-based compensation

The Company has a share-based compensation plan. The Company accounts for share-based compensation options and Performance Stock Units (**"PSUs"**) granted to employees and consultants using the fair value method. Under this method, compensation expense for share-based compensation granted is measured at the fair value at the grant date, using a Black-Scholes option valuation model. In accordance with the fair value method, the Company recognizes estimated compensation expense related to share-based compensation over the vesting period of the options granted, with the related credit being charged to contributed surplus. Consideration paid by employees on the exercise of share-based compensation is recorded as share capital and the related share-based compensation is transferred from contributed surplus to share capital.

(J) Property and equipment

Property and equipment are measured at cost less accumulated depreciation. Depreciation is calculated to expense the cost of the property and equipment items over their estimated useful lives using the straight-line method. Items relating to leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives of property and equipment are as follows:

Leasehold improvements	3-6 years
Furniture	5 years
Office equipment	3-5 years

The estimated useful life of the asset is reviewed at the end of each reporting date and adjusted if appropriate.

(K) Leases

Where the Company has entered a lease, the Company has recognized a right-of-use asset representing its rights to use the underlying assets and a lease liability representing its obligation to make lease payments. The right-of-use asset, where it relates to an operating lease, has been presented net of accumulated amortization and is disclosed under property and equipment, and for finance leases, the right-of-use asset is shown as finance lease asset, allocated between current and non-current assets. The lease liability has been disclosed as a separate line item, allocated between current and non-current liabilities.

The lease liability associated with all leases is measured at the present value of the expected lease payments at inception and discounted using the interest rate implicit in the lease. If the rate cannot be readily determined, the Company's incremental borrowing rate is used to discount the lease liability. Judgement is required to determine the incremental borrowing rate.

(L) Share warrants

The share warrants were issued as part of the private placement in July 2018 and were initially measured at fair value using a Black Scholes model. When the share warrants are exercised, the fair value attributable to the warrants exercised are added to the proceeds received and shown under share capital.

4. Significant accounting judgements, estimates, and assumptions

Royalty agreements acquired

The terms of the royalty agreements entered into by the Company provide that, payments to be made by investee companies are fixed or determinable. In addition, each of the Company's royalty agreements contains one or more of the following terms: (i) a right in favour of the investee company to buydown or 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 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.

For the royalty agreements acquired, the term of the agreement is normally perpetual, and the royalty amount received can be dependent on the revenues of the investee. The term of the royalty agreement can also be influenced by the termination of the royalty agreement after a contract buyout event. As a result, uncertainties exist as to how long the agreements will exist and the royalty payment income that will be received. The Company is primarily focused on building a portfolio of investments in companies that have carried on business for several years and have a demonstrable history of revenues. This enables the Company to use historical revenues as the starting base for estimating expected cash flows from an investment. 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 the 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.

Royalty agreements acquired and measurement of fair values

A number of the Company's accounting policies and disclosures require the measurement of fair values for financial assets and liabilities. The Company has established a control framework with respect to the measurement of fair values. This includes that all significant fair value measurements have been reviewed and approved by the Investment Committee of the Company. The Investment Committee reviews on a quarterly basis, significant unobservable inputs and valuation adjustments used in the fair value measurement of royalty agreements acquired and promissory notes. Fair values are categorized into different levels of a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Further information about the assumptions made in measuring fair values for financial instruments are included in Note 6.

Fair value of stock options, warrants and PSUs

Determining the fair value of stock options and warrants requires judgement 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.

Determining the fair value of PSUs requires judgement related to the choice of model to estimate the value of the market-based condition, the estimation of the expected period to meet performance targets, the estimation of stock price volatility, and the expected forfeiture rate.

Fair value of unquoted equity instruments

The fair value of unquoted instruments included in equity securities in investee companies that are not traded in an active market is determined using valuation techniques. The Company uses its judgement to select a variety of methods and make assumptions that are mainly based on transaction and market conditions existing at the end of each reporting period. For details of the key assumptions used and the impact of changes to these assumptions see note 6.

Assessing credit risk in loan investments

The Company has to continuously assesses the credit risk in its loan investments. This requires 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 an allowance for expected credit losses ("ECL") or, to assess if the collateral offered by the security position held by the Company is sufficient and if needed, record an impairment. Factors considered include timely servicing of loan payments and other contractual obligations (e.g., maintaining any other financial covenants such as a minimum cash balance, and meeting reporting requirements), as well as industry and macroeconomic developments. Inputs are gathered directly from the investee company management teams and reinforced / validated through independent industry research.

Deferred income taxes

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled and the value of tax losses carried forward. The deferred tax asset is supported by the expected future utilization of tax attributes based upon future cashflows derived from the Company's updated forecasts. The recognition of deferred tax assets is based on the significant assumptions and estimations regarding future revenues and expenses and the probability that the deductible temporary differences will reverse in the foreseeable future, and the accumulated tax losses will be utilized. The key assumptions developed by management used to determine the recoverability of the deferred tax assets included expected rates of capital deployment and funds raised, the spreads between the pricing of capital deployed and the cost of funds raised, operating expenses, and corporate general and administrative expenses. Changes in the tax rates or assumptions and estimates used in the recognition of deferred taxes may result in material adjustment to the amount recognized. Refer to note 14 for additional information relating to this estimate.

In Canadian dollars, for the year ended December 31, 2022

5. Standards issued but not yet effective

At the date of authorization of these financial statements, certain new standards, amendments, and interpretations to existing IFRS standards have been published but are not yet effective and have not been adopted early by the Company.

IAS 1, Presentation of Financial Statements

The IASB issued an amendment to IAS 1, Presentation of Financial Statements, to clarify one of the requirements under the standard for classifying a liability as non-current in nature, specifically for the requirement for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. This amendment includes:

- Specifying that an entity's right to defer settlement must exist at the end of the reporting period;

-Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

- Clarifying how lending conditions affect classification; and

- Clarifying requirements for classifying liabilities an entity will or may settle by issuing its own equity investments.

The amendment is effective for annual periods beginning on or after January 31, 2023. The Company expects no impact to the financial statements as a result of this amendment.

The new standards and interpretations that have been issued are not expected to have a material impact on the Company's financial statements. Management anticipates that any relevant pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement.

6. Fair values

a) Valuation Technique

The Company uses valuation techniques with the objective of determining a fair value measurement that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of the royalty agreements acquired by the Company are determined 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.

The fair value of equity securities in investee companies that are classified as Level 1 in the fair value hierarchy are determined using the closing share price on the last business day of the reporting period provided that such securities have actively been traded.

As a result 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 on the financial instrument being measured, 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.

b) Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:
Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Cash and cash equivalents, royalty agreements acquired, and equity securities in investee companies are measured at fair value. The financial assets measured at fair value by hierarchy are shown in the table below. The amounts shown are based on the amounts recognized in the statements of financial position. These financial assets are measured at fair value through profit and loss.

	Level 1	Level 2	Level 3	Total
December 31, 2022				
Cash and cash equivalents	$ 9,560,610	$ -	$ -	$ 9,560,610
Royalty agreements acquired	-	-	4,023,033	4,023,033
Equity securities in investee companies	337,143	-	4,735,354	5,072,497
	$ 9,897,753	**$**	**$ 8,758,387**	**$ 18,656,140**

In Canadian dollars, for the year ended December 31, 2022

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Cash and cash equivalents	$ 4,144,671	$ -	$ -	$ 4,144,671
Royalty agreements acquired	-	-	5,728,319	5,728,319
Equity securities in investee companies	558,537	-	2,186,973	2,745,510
	$ 4,703,208	**$ -**	**$ 7,915,292**	**$ 12,618,500**

The following table shows a reconciliation between the opening balances to the closing balances for fair value measurements for financial assets measured at fair value through profit and loss in Level 3 of the fair value hierarchy.

	Balance at December 31, 2021	Total gains and (losses) recognized in profit or loss	Investments	Buyouts and Redemptions	Balance at December 31, 2022
Royalty agreements acquired	$ 5,728,319	$ (996,999)	$ 39,510	$ (747,797)	$ 4,023,033
Equity securities in investee companies	2,186,973	2,526,629	295,538	(273,786)	4,735,354
Total	**$ 7,915,292**	**$ 1,529,630**	**$ 335,048**	**$ (1,021,583)**	**$ 8,758,387**

	Balance at December 31, 2020	Total gains recognized in profit or loss	Investments	Buyouts and Redemptions	Balance at December 31, 2021
Royalty agreements acquired	$ 17,109,057	$ 929,989	$ -	$ (12,310,727)	$ 5,728,319
Equity securities in investee companies	691,428	689,673	805,872	-	2,186,973
Total	**$ 17,800,485**	**$ 1,619,662**	**$** 805,872	**$** (12,310,727)	**$ 7,915,292**

The valuation technique used to determine the fair value of the royalty agreements acquired is a discounted cash flow model. The most significant unobservable inputs used in the valuation are the discount rate (range is between 18.1%-28.4%), growth rate of the revenues of the investee (range is between no growth and 10%). The low and high input values represent the actual highest and lowest level of values used over the portfolio and represent the range on an individual investment basis. The input ranges will therefore vary from period to period based on the characteristic of the underlying investment at each statement of financial position date.

For fair value measurements of the royalty agreements acquired in Level 3, changing the most significant unobservable inputs by 1% would have the following impact on the fair value of the royalty agreements as at December 31, 2022 as follows:

December 31, 2022		December 31, 2022	
Revenue growth rate -1%	Revenue growth rate +1%	Discount rate -1%	Discount rate +1%
$ (20,416)	$ 22,541	$ 53,334	$ (49,573)

For one of its royalty investments, the Company is awaiting court determination of the royalty buyout amount. The fair value of this investment is determined using a probability-weighted average of the three likely outcomes.

The listed equity instruments included in equity securities in investee companies are included in Level 1. The valuation technique used for listed equity instruments is the last quoted price on an actively traded market.

The unlisted equity instruments included in equity securities in investee companies are included in Level 3. The valuation technique used for unlisted equity instruments in general is the market approach (“Market Approach”). The Market Approach uses transaction prices paid for an identical or similar instrument of the investee or comparable company valuation multiples. The unobservable inputs used are prices used in recent transactions involving the investee and company valuation multiples using such measures as EBITDA, revenues, enterprise value and multiples taken from information available on similar types of companies.

For December 31, 2022, a 10% variance in the market price per share for listed equity securities and the unobservable inputs for unlisted equity securities would have the following impact on the unlisted equity securities in Level 3.

December 31, 2022		December 31, 2022	
Share price 10% lower	Share price 10% higher	Volatility 10% lower	Volatility 10% higher
$ (623,912)	$ 568,092	$ (349,865)	$ 275,253

In Canadian dollars, for the year ended December 31, 2022

c) Loans receivable measured at amortized cost

Promissory notes and loans receivable are recorded at amortized cost net of expected credit losses. The carrying amounts at December 31, 2022 and December 31, 2021 are $31,713,869 and $30,968,899, respectively, and approximate the fair value.

The following table summarizes loans receivable assessed at each stage of impairment (refer note 7) and the expected credit loss allowance, at December 31, 2022 and December 31, 2021.

December 31, 2022	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans receivable at amortized cost	$ 32,168,703	$ -	$ -	$ 32,168,703
Allowance for expected credit losses	(454,834)	-	-	(454,834)
	$ 31,713,869	**$ -**	**$ -**	**$ 31,713,869**

December 31, 2021	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans receivable at amortized cost	$ 31,277,930	$ -	$ -	$ 31,277,930
Allowance for expected credit losses	(309,031)	-	-	(309,031)
	$ 30,968,899	**$ -**	**$ -**	**$ 30,968,899**

d) Financial liabilities not measured at fair value

The below noted financial liabilities are measured at amortized cost. The table below is a comparison of the carrying amount and the fair value of the financial liabilities that are recognized in the statements of financial position:

	Carrying Amount December 31, 2022	**Fair Value December 31, 2022**	**Carrying Amount December 31, 2021**	**Fair Value December 31, 2021**
Financial liabilities				
Accounts payable and accrued liabilities	$ 1,013,730	$ 1,013,730	$ 962,708	$ 962,708
Priority Return Fund II LP	17,716,766	17,716,766	17,842,294	17,842,294
Series I Preferred Shares	1,220,001	1,220,001	-	-
Total	**$ 19,950,497**	**$ 19,950,497**	**$ 18,805,002**	**$ 18,805,002**

Accounts payable and accrued liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The carrying value of the PRF II units approximate fair value, as the carrying value of the pool of underlying securitised royalty investments was assessed to be higher than the face value of the outstanding senior units in PRF II. The carrying value of the Series I Preferred Shares approximate fair value, as they pay a dividend rate at the market rates of interest.

7. Financial risk management objectives and policies

The Company's primary risk management objective is to protect the Company's assets and cash flow. The Company is exposed to market risks including interest rate, equity price risk, credit, foreign exchange and liquidity risks. The Company's management team oversees the management of these risks. It is the Company's policy that no trading for speculative purposes shall be undertaken.

The Board of Directors reviews and agrees to policies for managing each of these risks, which are summarized below:

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise several types of risk: interest rate risk, currency risk, commodity price risk, and other price risk, such as equity risk. The Company is not directly subject to commodity price risk and has exposure to equity price risk on the equity securities held in investee companies.

Interest rate risk

The Company invests surplus cash in bank deposits which, due to their short-term nature, do not expose the Company to any material interest rate risks. For royalty agreements acquired, the income can vary on a monthly basis and is not a function of an underlying interest rate. The Company's loan receivable investments earn interest at fixed rates.

Equity price risk

In certain circumstances, the Company may exchange the royalty investments for equity instruments in the investee company. The Company held significant equity security interests in seventeen investees, of which two are actively traded as the securities are listed on a recognized exchange. The fair value of the listed equity securities, similar to any other Level 1 asset, were measured using the quoted price of the shares by the numbers of shares held. The common shares in Crimson Energy Ltd., and Exigo Holdings LP, and the warrants in Boardwalktech Software Corp., Stability Healthcare Inc., Spiridon Technologies Ltd., Echobox Ltd., Wirkn Inc., Wedge Networks, the Pyure Co., Miniluxe Inc., Jorsek Inc., Everwash Inc., Vet24Seven Inc., Kovo HealthTech Corp., and Prolifiq Software Inc., are not actively traded and were classified as Level 3 assets. For one of its investments, the Company is also entitled to success fees of 2% of the value of a change of control or business sale transaction. These Level 3 investments were measured using commonly used valuation models. The equity price risk exposure at December 31, 2022 was $5,072,497 (December 31, 2021: $2,745,510). Refer to Note 6 for sensitivity analysis on equity price risk exposure at December 31, 2022.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company has foreign currency exposures to receivables in United States dollars. The Company continually monitors its transaction and translation exposure and its related impact on reported results. The foreign exchange exposure at December 31, 2022 was $29,283,984 (December 31, 2021: $26,509,355) United States dollars and a 1% movement in the exchange rate has an impact of $292,840 (December 31, 2021: $265,094) on the Company's results.

Credit risk

Credit risk is the risk that the counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company enters into royalty arrangements with investees in which a purchase price is advanced in return for participation in the investees' revenue stream and loan agreements where the return is in the form of interest payments. This can take the form of a royalty or loan receivable, without limitation. The carrying amount of cash and cash equivalents, accounts receivable and accrued income, investments at fair value and amortized cost, excluding equity securities in investee companies, represents the maximum exposure to credit risk.

The maximum exposure at December 31, 2022 was $45,329,955 (December 31, 2021 was $40,843,218). The cash is held by a Canadian bank which is rated A+ and the cash is invested in short term liquid investments.

The Company has adopted the 'three-stage' model for testing its loan investments for impairment based on changes in credit quality since initial recognition, as outlined under IFRS 9. This is summarized below:

A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Company. In monitoring credit risk, the Company considers industry, sales volume and aging trends, maturity, and other relevant factors. The Company performs ongoing credit evaluations of its customers' financial condition and limits the amount of credit extended when deemed necessary.

If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. An investment moved to 'Stage 2' if one or more of the following criteria are evidenced, and there is no reasonable explanation from the investee company:

- The investee is more than 30 days but less than 90 days in arrears on its contractual payment obligations;
- Company management believes the cash resources available to the investee may not be sufficient to meet ongoing needs; or
- The investee has significantly underperformed the previously provided business plans / investment thesis.

A financial instrument is considered credit-impaired and is then moved to 'Stage 3' if:

- The investee is 90 days past due on contractual payments;
- The investee is in material breach of financial covenants.
- The investee is in long term forbearance; or
- The investee's assets and / or estimated equity value (subject to the Company's security position) is insufficient to cover the investment or if the investee is insolvent

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.

The Company assigns each loan in the portfolio to a credit quality stage (Stage 1, Stage 2 or Stage 3). This credit quality staging is then used to calculate the lifetime ECL as the maximum loss in default adjusted for the probability of loss. The ECL is reviewed for each loan at each reporting period, to incorporate changes in macroeconomic and industry factors, and company specific information. The ECL is recorded as an allowance through the statement of comprehensive income and reported on the statement of financial position as a net amount of loans receivable.

The loans receivable are typically secured with a senior charge on the assets of the borrower, trademarks and any other intellectual property, and in some cases, with a pledge of the promoters shareholding in the venture. Currently, none of the loan investments are assessed as having a significant increase in credit risk. At December 31, 2022, all the loans receivable held were assessed to be at Stage 1 and the Company has booked an allowance of $454,834 (December 31, 2021: $309,031) based on its assessment of expected credit losses over the next 12 months.

Concentration risk

Concentration risk is the risk that a small number of investments represent a disproportionate share of the total investment portfolio, and the impairment of one or more investment with a higher weightage would present a disproportionately higher risk. The Company's approach to managing concentration risk is to ensure, as far possible, that capital allocation is balanced across investments and sectors such that no single investment / sector represents over 20% of the investment portfolio. The Company manages this risk by reviewing its investment portfolio, upcoming maturities, and pipeline qualification criteria to maintain this balance. At December 31, 2022, 3 investments each represented over 10% of the total carried value of the investment portfolio, at 19.5%, 16.2% and 14.0%, respectively.

In Canadian dollars, for the year ended December 31, 2022

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions. The Company manages liquidity risk by reviewing its capital requirements on an ongoing basis and by continuously reviewing both actual and forecasted cash flows to ensure that the Company has appropriate capital capacity and liquidity.

The following table summarizes the maturity of all financial liabilities as at December 31, 2022 and December 31, 2021 respectively:

Contractual obligations at December 31, 2022	< 1 year	1-2 years	3-6 years	Expected more than 1 year	Total
Accounts payable and accrued liabilities	$ 1,013,730	$ -	$ -	$ -	$ 1,013,730
Lease Liability	22,554	-	-	-	22,554
Priority Return Fund II LP	11,619,428	-	6,097,338	-	17,716,766
Series I Preferred Shares	-	-	1,220,001	-	1,220,001
Total	**$ 12,655,712**	**$ -**	**$ 7,317,339**	**$ -**	**$ 19,973,051**

Contractual obligations at December 31, 2021	< 1 year	1-2 years	3-6 years	Expected more than 1 year	Total
Accounts payable and accrued liabilities	$ 962,708	$ -	$ -	$ -	$ 962,708
Lease Liability	21,490	20,680	2,151	-	44,321
Priority Return Fund II LP	1,500,758	-	16,341,536	-	17,842,294
Total	**$ 2,484,956**	**$ 20,680**	**$ 16,343,687**	**$ -**	**$ 18,849,323**

Capital management

The Company's primary capital management objective is to make long term investments that generate recurring cash flow and capital appreciation, while safeguarding the capital invested and providing sufficient working capital to sustain day-to-day operations, to deliver long term shareholder equity growth.

The Company is subject to certain restrictions on cash flows from its assets securitised to PRF II, as described in Note 15. The Company's share capital is not subject to external restrictions. The capital of the Company comprises shareholders' equity, the Priority Return Fund II LP units and the Series I Class A Preferred Shares. Loan interest and royalty payments, realized gains on contract buyouts and fee income will continue to be an important source of capital for the Company.

The Company will continually assess the adequacy of its capital structure and capacity and make adjustments within the context of the Company's strategy, economic conditions, and the risk characteristics of the business.

8. Cash and cash equivalents

	December 31, 2022	December 31, 2021
Cash held in bank accounts	$ 8,860,610	$ 3,429,671
Guaranteed investment certificates cashable at any time	700,000	715,000
	$ 9,560,610	**$ 4,144,671**

9. Prepaid expenses and other receivables

	December 31, 2022	December 31, 2021
Prepaid insurance, rent deposit and other prepaid expenses	$ 312,252	$ 366,073
Staff loans receivable	26,559	-
Accrued interest on guaranteed investment certificates	5,884	1,328
	$ 344,695	**$ 367,401**

In Canadian dollars, for the year ended December 31, 2022

10. Investments

a) Carrying value of investments

Royalty agreements acquired (at FVTPL)	**December 31, 2022**	**December 31, 2021**
Expected within 1 year	$ 3,057,271	$ 4,700,976
Expected after more than 1 year	965,762	1,027,343
Total	**$ 4,023,033**	**$ 5,728,319**

The term of the typical royalty agreement is normally perpetual where the investee has a buyout and buydown option.

Loans receivable (at Amortized Cost)	**December 31, 2022**	**December 31, 2021**
Due within 1 year	$ 14,009,605	$ 64,583
Due after more than 1 year	17,704,264	30,904,316
Total	**$ 31,713,869**	**$ 30,968,899**

At December 31, 2022, the portfolio of loans receivable have interest rates of 15% to 20% (2021: 15% to 22%) and mature in 1 to 3 years. The Company also holds a note payable, acquired through an RTO transaction in 2018, which has a 10-year term and earns an interest of 10%.

Equity securities in investee companies (at FVTPL)	**December 31, 2022**	**December 31, 2021**
Expected exit within 1 year	$ -	$ -
Expected exit after more than 1 year	5,072,497	2,745,510
Total	**$ 5,072,497**	**$ 2,745,510**
Total carrying amount of investments	**$ 40,809,400**	**$ 39,442,728**

For particular investments, the Company has in place a charge on the assets of the investees under General Security Agreements. The carrying value of these investments with such security in place was as follows:

	December 31, 2022	**December 31, 2021**
Royalty agreements	$ 832,645	$ 203,406
Promissory notes receivable	31,068,361	30,862,880
	$ 31,901,007	**$ 31,066,286**

b) Equity securities in investee companies

	Fair Value Hierarchy	**Cost December 31, 2022**	**Carrying amount December 31, 2022**	**Cost December 31, 2021**	**Carrying amount December 31, 2021**
Common shares (publicly traded)	Level 1	$ 1,350,390	$ 337,143	$ 1,547,882	$ 558,537
Common shares (not publicly traded)	Level 3	354,448	263,822	299,528	-
Warrants (not publicly traded)	Level 3	2,705,558	4,471,532	2,734,275	2,186,973
Total		**$ 4,410,396**	**$ 5,072,497**	**$ 4,581,685**	**$ 2,745,510**

In Canadian dollars, for the year ended December 31, 2022

c) Movement during the period

The changes in the carrying amount in investments at fair value during the reporting period were:

	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**

	Year ended December 31, 2021			
	Royalty agreements acquired	**Equity securities in investee companies**	**Loans receivable**	**Total**
Balance as at December 31, 2020	**$ 17,109,057**	**$ 4,328,699**	**$ 8,335,531**	**$ 29,773,287**
Proceeds from exits	(12,310,727)	(5,497,039)	(13,852)	(17,821,618)
Gain recognized on exits	4,856,487	4,337,636	(490,000)	8,704,123
Losses from investments written off	(3,106,800)	-	-	(3,106,800)
New investments	-	805,872	22,255,480	23,061,352
Royalty earned and payments received- net	219,872	-	1,193	221,065
Foreign exchange movements	(465,570)	3,520	123,305	(338,745)
Loan amortization income	-	-	226,273	226,273
Adjustment to fair value / expected credit losses	(574,000)	(1,233,178)	530,969	(1,276,209)
Balance as at December 31, 2021	**$ 5,728,319**	**$ 2,745,510**	**$ 30,968,899**	**$ 39,442,728**

11. Property and equipment

	Right-of-use asset	**Office equipment & furniture**	**Leasehold improvements**	**Total**
Cost				
Balance at December 31 2021	112,201	192,631	220,339	525,171
Additions	-	-	-	-
Balance at December 31, 2022	**$ 112,201**	**$ 192,631**	**$ 220,339**	**$ 525,171**
Accumulated depreciation				
Balance at December 31 2021	77,328	164,272	220,339	461,939
Charge in period	18,195	18,714	-	36,909
Balance at December 31, 2022	**$ 95,523**	**$ 182,985**	**$ 220,339**	**$ 498,847**
Carrying amount				
At December 31, 2021	**$ 34,873**	**$ 28,359**	**$ -**	**$ 63,233**
At December 31, 2022	**$ 16,678**	**$ 9,646**	**$ -**	**$ 26,324**

The right-of use asset is related to the office lease at 1 Adelaide Street East, Suite 3002, Toronto.

12. Accounts payable and accrued liabilities

	December 31, 2022	**December 31, 2021**
Accounts payable	$ 360,972	$ 172,641
Accrued expenditures	259,273	272,260
Financing cost payable to holders of the Preferred Shares	28,291	-
Other liabilities	365,194	517,807
Total	**$ 1,013,730**	**$ 962,708**

In Canadian dollars, for the year ended December 31, 2022

In the year ended December 31, 2021, the Company recorded an expense recovery of $767,722 on account of a reversal of accruals and provisions where the limitation period has lapsed.

13. Finance lease liability

A continuity of the Company's finance lease asset and lease liability are as follows:

	Lease liability
Balance as at December 31, 2021	**$ 44,321**
Adjustment to lease payments	374
Lease payments received / paid	(26,076)
Interest recognized	3,935
Balance as at December 31, 2022	**$ 22,554**

Details of the Company's finance lease assets and lease liability are as follows:

	December 31, 2022	December 31, 2021
Lease liability	**$ 22,554**	**$ 44,321**
Current	22,554	21,490
Non-current	-	22,831

14. Income taxes

(a) Amounts recognized in statements of comprehensive income (loss)

	Year ended December 31, 2022	Year ended December 31, 2021
Income tax expense – current year	$ 362,938	$ 1,433,140
Income tax expense (recovery) – prior year	-	(7,506)
Total current income tax expense (recovery)	**362,938**	**1,425,634**
Deferred tax expense (recovery)		
Origination and reversal of temporary differences in year	1,241,262	(492,225)
Recognition of deferred tax asset from prior period	(9,195,192)	-
Total deferred income tax expense (recovery)	(7,953,930)	**(492,225)**
Total income tax expense (recovery)	**$ (7,590,992)**	**$ 933,409**

(b) Reconciliation of effective tax rate

	Year ended December 31, 2022	Year ended December 31, 2021
Net Income (Loss) before tax	**$ 6,919,728**	**$ 6,530,684**
Tax at the combined Canadian federal and provincial statutory tax rate of 26.5%	1,833,728	1,730,632
Income and deferred tax recovery – prior year	-	(7,506)
Derecognition of deferred tax previously recognized	-	(1,181,300)
Recognition of deferred tax previously derecognized	(9,195,192)	-
Changes in deductible temporary differences where the tax benefit is not recognized	(146,328)	324,275
Tax cost (benefit) of non-deductible expenses and non-taxable income	(233,122)	67,308
Tax consequences of undistributed profits of subsidiary	149,922	-
Incomes tax expense	**$ (7,590,992)**	**$ 933,409**

(c) Deferred tax asset (liability)

Balance at December 31, 2020	$ (502,376)
Deferred tax expense	492,225
Foreign exchange	(2,386)
Balance at December 31, 2021	$ (12,537)
Deferred tax recovery	7,953,930
Balance at December 31, 2022	$ 7,941,393

The Company's recognized deferred tax assets (liabilities) relate to the Company's Canadian parent company and the details are as follows:

In Canadian dollars, for the year ended December 31, 2022

	December 31, 2022	December 31, 2021
Canadian non-capital loss carry-forwards	$ 8,071,716	$ -
Investments	(877,231)	-
Property and equipment	462,590	-
Other deductible and taxable temporary differences	284,318	(12,537)
Net deferred tax asset	**$ 7,941,393**	**$ (12,537)**

As at December 31, 2022, the Company has deductible temporary differences relating to the investments held by Flow Capital US Corp. of $702,353 for which no deferred tax asset has been recognized as it is not considered probable that there will be sufficient future taxable income in this subsidiary to utilize this potential deduction.

As at December 31, 2022, based on the long-term financial plan prepared by management, the Company forecasts that the Canadian non-capital loses and other deductible temporary differences can be utilized before their expiry date. Therefore, the Company has recognized the resulting deferred tax asset.

(d) Tax losses carried forward – December 2022

Canadian non-capital loss carry-forward for which the deferred tax asset was recognised expire as follows:

	December 31, 2022
2038	$ 21,638,009
2039	6,702,064
2040	2,119,231
Total	**$ 30,459,304**

15. Redeemable debt

The redeemable debt of the Company comprises two components:

Priority Return Fund II LP

On September 30, 2020, the Company launched Priority Return Fund II LP to raise capital up to $25,000,000 against the issuance of A, F and S Units. In June 2021, PRF II introduced Class B and Class G units to allow the Company the flexibility to raise US$ denominated funds and better match currency exposure in its assets and liabilities. FISC, a wholly owned subsidiary of Flow Capital, became the general partner of Priority Return Fund II (“PRF II”) and made a capital contribution of ten dollars for one GP unit. FISC controls all the relevant activities of the Priority Return Fund II through the PRF II LPA. The limited partners of the Priority Return Fund II appointed FISC as General Partner to administer all the activities of PRF II in accordance with the LPA. FISC has no contractual obligation to provide financial or other support to the Priority Return Fund II other than the services detailed in the LPA. FISC does not receive any consideration for the services provided to the Priority Return Fund II.

The purpose of the Priority Return Fund II is to raise capital for Flow Capital. Under the terms of the PRF II Limited Partnership Agreement (“PRF II LPA”), Pursuant to the terms of the PRF II LPA Flow Capital will subscribe for Class S units in the amount of 25% of the senior preferred units (A, B, F and G units) issued in each tranche of funds raised, giving rise to a maximum raise of $20,000,000, excluding S units. In exchange for the investment amount raised, Flow Capital grants a royalty to the Priority Return Fund II. PRF II is considered a subsidiary of Flow Capital for the purposes of consolidation.

Under the LPA, A, B, F and G Unit investors will receive an amount equal to the lesser of the (i) sum of 9% per year, payable monthly, of the outstanding Investment Amount (the “Class A Return”), 8.25% per year, payable monthly, of the outstanding Investment Amount (the “Class B Return”), 10% per year, payable monthly, of the outstanding Investment Amount (the “Class F Return”) and 9.25% per year, payable monthly, of the outstanding Investment Amount (the “Class G Return”) or (ii) royalty and loan interest payments received by Flow Capital from the underlying royalty investments and promissory notes receivable. To date, the interest paid on the Class F and G units has been at the maximum rate of 10% and 9.25% per annum, respectively.

The A, B, F and G Units are pari passu senior units ranking in priority over the subordinated S units and any cash buyout payments received by Flow Capital from the Underlying Royalty Contracts will be used to redeem senior A, B, F and G units of PRF II held by investors in priority to subordinated units as and when such buyout payments are received by Flow Capital, until the preferred units are fully redeemed. If by the fifth anniversary of the establishment of PRF II there has been less than 50% in redemptions of senior A, B, Fand G units, the Company will redeem, at every quarterly period thereafter, such number of senior A and F units as is equal to 20% of the Adjusted Net Royalty Payments divided by the applicable unit redemption price, until such time as there have been 50% in redemptions of senior A,B, F and G units.

The Priority Return Fund II does not have any additional obligation or liability to the Limited Partners beyond the payments under the Class A, Class B, Class F and Class G units detailed above and as a result, the Class A, Class B, Class F and Class G units are subject to asset-specific performance risk.

In Canadian dollars, for the year ended December 31, 2022

Flow Priority Return Fund II

	Class A and B		Class F		Class G		Total
	Number of units	Amount	Number of units	Amount	Number of units	Amount	**Amount**
Balance at December 31, 2020	**-**	**$ -**	**15,740,000**	**$ 15,740,000**		**$ -**	**$ 15,740,000**
Issued	-	-	-	-	8,983,000	11,084,199	11,084,199
Redeemed	-	-	(9,190,000)	(9,190,000)	(76,000)	(94,146)	(9,284,146)
FX impact	-	-	-	-	-	302,241	302,241
Balance at December 31, 2021	**-**	**-**	**6,550,000**	**6,550,000**	**8,907,000**	**11,292,295**	**17,842,294**
Issued	-	-	-	-	1,680,000	2,173,122	2,173,122
Redeemed	-	-	(2,105,000)	$ (2,105,000)	(788,000)	$ (1,056,131)	$ (3,161,131)
FX impact	-	-	-	-	-	862,480	862,480
Balance at December 31, 2022	**-**	**-**	**4,445,000**	$ **4,445,000**	**9,799,000**	**$ 13,271,766**	**$ 17,716,766**
Current				2,915,225		8,704,203	11,619,428
Non-current				$ 1,529,775		$ 4,567,563	$ 6,097,338

The obligation to make the monthly payment to the Limited Partners was classified as an interest expense and was included as part of the financing expense. The amounts recognized in the statements of comprehensive income were made up as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Interest expense on PRF II Class F units	$ 561,248	$ 1,116,586
Interest expense on PRF II Class G units	1,179,350	462,861
Total	**$ 1,740,598**	**$ 1,579,447**

Series I Class A preferred shares

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. For the year ended December 31, 2022, $57,504 was recorded as dividend (2021- Nil) (also refer **Note 16**).

16. Share capital and other components of equity

The authorized share capital of the Company consists of an unlimited number of voting common shares without par value, and 1,811,666 Series I Class A preferred shares with a face value of $3 per share.

Series I Class A preferred shares

On December 12, 2021, the Company received approval from the TSXV to create a new class of Series I Class A preferred shares, pursuant to the shareholder approval obtained at a meeting of the shareholders held on May 26, 2020. Subsequently, pursuant to the board approvals for amendments obtained via consent resolutions dated November 16, 2021 and June 3, 2022, on June 28, 2022, the Company issued a first tranche of 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.

The issued and outstanding preferred shares at December 31, 2022 were 406,667 (December 31, 2021 – Nil). The Series I Class A preferred shares are redeemable and accrue a cumulative interest and are classified as a financial liability. For the year ended December 31, 2022, $57,504 was recorded as dividend (2021- Nil).

Common shares

The issued and outstanding common shares at December 31, 2022 were 31,290,610 (December 31, 2021 – 31,240,077).

On August 16, 2022, the Company issued 187,833 common shares pursuant to the vesting of the first tranche of the previously awarded Performance Stock Units.

In Canadian dollars, for the year ended December 31, 2022

The Company initiated a Normal Course Issuer Bid (**"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. In year ended December 31, 2022, 184,500 shares were purchased under the NCIB at a weighted-average price per share of $0.5031 for a total cost of $92,803 (2021 - 915,000 common shares repurchased at a weighted-average price per share of $0.4280 for a total cost of $391,652), and subsequently returned to treasury for cancellation.

On December 6, 2022, the Company issued 47,200 common shares on exercise of warrants and $9,128 was reallocated from the warrant reserve to shareholder equity.

Share warrants

The details of the share warrants outstanding at December 31, 2022 and December 31, 2021:

Number of Warrants outstanding	Exercise price	Expiry date	Remaining contractual life (years)
2,469,145	$0.44	June 26, 2023	0.48

Share based payments

On December 31, 2021, the Board approved the replacement of the Corporation's stock option plan with a new omnibus equity incentive plan (the "Omnibus Plan") to give the Board greater flexibility in the types of incentive awards that can be granted to directors, officers, employees and consultants of the Corporation and its subsidiaries. The Omnibus Plan subsequently received shareholder approval at the Annual General Meeting held on October 4, 2022.

Pursuant to the terms of the Omnibus Plan, the Company has awarded Stock Options and Performance Stock Units ("PSUs").

Stock options

The Company maintains a 10% "rolling" stock option plan to develop the interest of and provide an incentive to eligible employees, directors and consultants of the corporation and its affiliates. The Plan provides for the issuance of a maximum of 10% of the issued and outstanding common shares. Options granted may vest over certain time periods within the option period, which will limit the number of options that may be exercised. Each stock option is exercisable into one common share of the Company at the price specified in the terms of the option.

The following options were outstanding under the plan, at December 31, 2022:

Original Issue Date	Number of Options Outstanding	Number of Options Exercisable	Exercise Price	Expiry Date	Remaining contractual life (years)
June 13, 2018	1,450,000	1,377,500	$0.36	June 13, 2023	0.45
December 4, 2018	1,000,000	850,000	$0.36	December 4, 2023	0.93
May 1, 2020	500,000	275,000	$0.36	April 30, 2027	4.33
May 27, 2020	100,000	55,000	$0.36	May 26, 2027	4.40
Total	**3,050,000**	**2,557,500**			
Weighted average exercise price	**$0.36**	**$0.36**		Weighted average remaining contractual life	**1.37**

During the year ended December 31, 2022, 100,000 options expired unexercised, and $27,539 was reallocated from contributed surplus to retained earnings.

The Company uses the Black-Scholes option pricing model to calculate the fair value of any options granted. The model requires management to make estimates, which are subjective and may not be representative of actual results. Changes in assumptions can materially affect estimates of fair values.

Performance Stock Units ("PSUs")

During the year ended December 31, 2022, the Company awarded 86,000 PSUs (2021: 1,050,000) to certain employees, with all PSUs being subject to the following performance vesting criteria established by the Board:

In Canadian dollars, for the year ended December 31, 2022

Metric: Share Price		**Metric: Recurring Free Cash Flow**	
Vesting Portion	Threshold	Vesting Portion	Threshold
1/6th	$1.00	1/6th	$2,000,000
1/6th	$2.00	1/6th	$5,000,000
1/6th	$3.00	1/6th	$8,000,000

The fair value of the performance stock units awarded is determined as follows:

For the share price-based components of the PSUs, the 'market condition' (share price) thresholds were incorporated into the estimate of the fair value, using a Monte Carlo simulation, and was estimated to have a nominal value. The fair value of this component is expensed over the vesting period and not adjusted for performance.

For the performance condition (recurring free cash flow) based components of the PSUs, the fair value per share equals the stock price on grant date. The fair value expensed over the vesting period is adjusted based on the number of shares that vest.

A total of $144,858 was expensed towards share based compensation on account of PSUs, for the year ended December 31, 2022 (2021- $17,800). In the year 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. A total of 939,167 PSUs are outstanding as on December 31, 2022.

17. Revenues

i) Income from investments at fair value

	Year ended December 31, 2022	Year ended December 31, 2021
Royalty and loan payment income		
Royalty payment income	$ 1,093,273	$ 3,136,269
Loan interest income	6,702,027	2,954,834
Total	**$ 7,795,300**	**$ 6,091,103**
Realized gains from sale of investment		
Royalty and loan agreements acquired	$ 103,001	$ 4,366,487
Equity securities in investee companies		
Realized gain on sale of equity investments	$ 1,987,443	4,298,128
Transfer of fair value adjustment upon sale of shares	72,184	39,508
Total	**$ 2,162,628**	**$ 8,704,123**
Realized loss on investments written-off		
Royalty agreements written-off	$ -	$ (3,106,800)
Loans receivable written-off	(420,789)	-
Equity investments written-off	(218,866)	-
Total	**$ (639,655)**	**$ (3,106,800)**
Adjustments to fair value		
Royalty agreements	$ (1,106,181)	$ (574,000)
Loans receivable	6,347	840,000
Equity securities in investee companies	2,090,588	(1,233,178)
Total	**$ 990,753**	**$ (967,178)**
Change in expected credit losses		
Movement in expected credit losses	$ (145,803)	$ (309,031)
Total	**$ (145,803)**	**$ (309,031)**
Other investment income and gains		
Interest income on invested cash and cash equivalents and other fee income	$ 132,892	$ 200,176
Total	**$ 132,892**	**$ 200,176**

In Canadian dollars, for the year ended December 31, 2022

Loan interest income for the year-ended December 31, 2022, includes $774,328 in prepayment fees (2021 - $Nil) and $802,854 in loan amortization income (2021 - $226,273) (also refer Note 10). Loan amortization income and prepayment fees are collected in cash on repayment / early repayment of the loans.

18. Foreign exchange gains (losses)

	Year ended December 31, 2022	Year ended December 31, 2021
Foreign exchange gains (losses)		
Unrealized foreign exchange (loss) gain	$ 1,740,165	$ (185,053)
Realized foreign exchange (loss) gain	(1,191)	(393)
Total	**$ 1,738,974**	**$ (185,446)**

19. Employee benefit expense

	Year ended December 31, 2022	Year ended December 31, 2021
Wages and salaries	$ 1,329,870	$ 1,291,876
Restructuring costs	(20,585)	65,579
Other benefits	50,163	34,212
Employer related costs for insurance, health tax	102,211	76,451
Salaries, benefits and other staffing costs	**1,461,659**	**1,468,118**
Share-based compensation **(Note 20)**	196,424	119,484
Total	**$ 1,658,083**	**$ 1,587,602**

20. Share-based compensation

The amounts recognized for share-based compensation in the statement of comprehensive income were made up as follows:

	Year ended December 31, 2022	Year ended December 31, 2021
Expense recognized based on vesting conditions of stock options	$ 51,566	$ 101,684
Expense recognized based on vesting conditions of PSUs	144,858	17,800
	$ 196,424	**$ 119,484**

21. Financing expense

	Year ended December 31, 2022	Year ended December 31, 2021
Priority Return Fund II interest	$ 1,740,598	$ 1,579,447
Series I Class A preferred shares dividend	57,504	-
Total	**$ 1,798,102**	**$ 1,579,447**

22. Earnings per share

The following reflects the profit, loss and unit data used in the basic and diluted earnings per share computations:

	Year ended December 31, 2022	Year ended December 31, 2021
Profit attributable to ordinary equity holders for basic earnings / per share	$ 14,510,720	$ 5,597,275
Basic weighted average number of shares outstanding	31,276,125	31,407,914
Dilutive effect of options and warrants	1,038,644	874,595
Diluted weighted average number of shares outstanding	32,314,769	32,282,509
Basic earnings per share	$ 0.4640	$ 0.1782
Diluted earnings per share	$ 0.4490	$ 0.1734

In Canadian dollars, for the year ended December 31, 2022

The potential dilutive impact of the holders right to receive shares on the redemption of the Class I Series A Preferred Shares has been excluded as it would be anti-dilutive.

23. Operating segment information

Flow Capital operates as an investment firm providing growth capital to emerging growth businesses comprising one operating segment. All of the Company's reported revenue is from external customers. The breakdown of the recognized revenue by country was:

	Year ended December 31, 2022	Year ended December 31, 2021
Canada	$ (1,986,673)	$ 5,262,452
United States	11,231,545	4,557,376
United Kingdom	1,051,244	607,119
Total	**$ 10,296,116**	**$ 10,426,947**

For the year ended December 31, 2022, the royalty and loan payment income and the interest income on promissory notes received for 4 (2021: 5) investees was over 10% of the total royalty and loan payment income, at 18.5%, 13.7%, 13.5% and 12.3% of the total, respectively.

24. Changes in working capital items

	Year ended December 31, 2022	Year ended December 31, 2021
Accounts receivable and accrued income	$ -	$ 1,420
Prepaid expenses and other receivables	22,706	157,296
Accounts payable and accrued liabilities	22,731	(1,024,559)
Total	**$ 45,437**	**$ (865,844)**

25. Related party disclosures

Key management personnel

The number of key management personnel as at December 31, 2022 was 6 (December 31, 2021: 6) and are identified as the members of the board of directors and the officers of the Company.

i) Compensation

	Year ended December 31, 2022	Year ended December 31, 2021
Short term employee benefits	$ 822,091	$ 834,294
Share-based compensation	180,630	124,662
Total	**$ 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 $180,988 was accrued and expensed on that redeemable debt during the year ended December 31, 2022 (2021: $198,490).

On June 28, 2022, Company issued the first tranche of its Series I Class A preferred shares. As at December 31, 2022, 166,667 preferred shares with a face value of $500,001 (December 31, 2021 $nil) were held by a director, and interest of $23,567 was accrued and expensed on these preferred shares during the year ended December 31, 2022 (2021: $nil).

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 earned interest income on these loans in the amount of $244 (December 31, 2021 - $Nil) at the CRA prescribed rate.

26. Subsequent Events

On January 5, 2023, the Company issued 50,000 common shares on the exercise of warrants.

On January 10, 2023, the Company granted 75,000 options to some of its employees. These options have an exercise price of $0.60, will vest quarterly over 5-years, and have a 7-year term.

After the year-ended December 31, 2022 and until March 28, 2023, the Company purchased 182,000 common shares at an average price of $0.5685, under the ongoing NCIB, and subsequently returned to treasury for cancellation.