

Flow Capital Corp.**MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis ("MD&A") of the financial condition and results of Flow Capital Corp. ("Flow Capital", the "Company", "our" or "we") is for the three and nine months ended September 30, 2020. The information in this MD&A is current as of November 17, 2020 and should be read in conjunction with the interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2020 and the audited annual consolidated financial statements and MD&A for the year ended December 31, 2019.

The Company's interim condensed consolidated financial statements and notes thereto for the three and nine months ended September 30, 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and are recorded in Canadian dollars. Certain dollar amounts in this MD&A have been rounded to the nearest thousands of dollars.

FORWARD-LOOKING INFORMATION

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

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

In connection with the forward-looking information and forward-looking statements contained in this MD&A, the Company has made certain assumptions. Assumptions about the performance of the Canadian and U.S. economies over the next 24 months and how that will affect the Company's business and its ability to identify and close new

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

opportunities with new investees are material factors that the Company considered when setting its strategic priorities and objectives, and its outlook for its business.

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

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

NON-IFRS MEASURES

This MD&A also refers to certain key performance indicators, including EBITDA, Adjusted EBITDA, Free Cash Flow, weighted average royalty rate and cash returned from royalty payments and royalty buyouts to assist in assessing the Company's financial performance. EBITDA, Adjusted EBITDA, Free Cash Flow, weighted average royalty rate and cash returned from royalty payments and royalty buyouts (the "**Non-IFRS Measures**") are financial measures used in this MD&A that are not standard measures under IFRS. The Company's method of calculating the Non-IFRS Measures may differ from the methods used by other issuers. Therefore, the Company's Non-IFRS measures may not be comparable to similar measures presented by other issuers. See section "**Definition of Non-IFRS Measures**" for an explanation on how they are calculated. These Non-IFRS measures should only be interpreted in conjunction with the most recently audited consolidated financial statements for the year ended December 31, 2019, which are available on SEDAR at www.sedar.com.

TABLE OF CONTENTS

REDEMPTION OF FLOW PRIORITY RETURN FUND LP AND FINANCING THROUGH FLOW PRIORITY RETRUN FUND II LP	4
INVESTMENT IN COMMERCIAL AIR PURIFICATION SOLUTIONS	4
FOLLOWON INVESTMENT IN A MACHINE LEARNING-BASED AUTOMATION PLATFORM. 4	
IMPACT OF COVID-19	5
BUYOUT OF ROYALTY INVESTMENT RETURNING 2.69X OVER 43 MONTHS	5
REDEMPTION OF SERIES B DEBENTURE	5
INVESTMENT IN TELECOM INFRASTRUCTURE FIRM	5
GENERAL DESCRIPTION OF THE BUSINESS	6
RESULTS OF OPERATIONS	6
PORTFOLIO UPDATE	9
OUTLOOK	14
SUMMARY OF QUARTERLY RESULTS	14
LIQUIDITY AND CAPITAL RESOURCES	15
WORKING CAPITAL	16
FINANCIAL INSTRUMENTS	17
COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS	18
TRANSACTIONS BETWEEN RELATED PARTIES	18
INTERNAL CONTROL OVER FINANCIAL REPORTING	19
LIMITATIONS OF CONTROLS AND PROCEDURES	19
CRITICAL ACCOUNTING ESTIMATES AND POLICIES	19
RECENT ACCOUNTING DEVELOPMENTS	20
OUTSTANDING SHARES	20
RISK FACTORS	20
APPROVAL	28
ADDITIONAL INFORMATION	28
DEFINITION OF NON-IFRS MEASURES	29

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

REDEMPTION OF FLOW PRIORITY RETURN FUND LP AND FINANCING THROUGH FLOW PRIORITY RETRUN FUND II LP

On September 30, 2020, the Company redeemed all the outstanding units of Flow Priority Return Fund LP (the “**Priority Return Fund I**” or “**PRF I**”).

On October 15, 2020, the Company closed a \$17,000,000 financing, as the first close towards a total of \$25,000,000, through a limited partnership called Flow Priority Return Fund II LP (the “**Priority Return Fund II**” or “**PRF II**”), which is considered a subsidiary of Flow Capital for the purposes of the consolidated financial statements. A collection of institutional and high net worth investors (the “**Limited Partners**”) have invested \$13,660,000 into the Priority Return Fund II, in exchange for 13,660,000 Class F units. The Company has also invested \$3,415,000 into the Priority Return Fund II, in exchange for 3,415,000 Class S units. Under the PRF II Limited Partnership Agreement (the “**LPA**”) dated September 30, 2020, in exchange for the Investment Amount, the Company has granted to PRF II a royalty interest in 8 of the Company's existing investments.

PRF II may also, at its option, issue such further senior A, F or H units on a subsequent close, with the return attached to the senior H units being determined by the general partner of Fund II. At each subsequent close, the Company will subscribe to additional S Class units equal to 25% of the number of senior units issued in that tranche.

Under the PRF II LPA, an amount equal to the lesser of the (i) sum of 9% per month of the outstanding Investment Amount (the “**Class A Return**”) and 10% per month of the outstanding Investment Amount (the “**Class F Return**”) or (ii) royalty payments received by Flow Capital from the Underlying Royalty Contracts will be paid to investors (collectively, the “**Preferred Return**”). Any cash buyout payments received by Flow Capital from the Underlying Royalty Contracts will be used to redeem senior A and F units of Fund 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 Fund II there has been less than 50% in redemptions of senior A and F 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 and F units. Flow Capital will have no obligation to make any payments to Fund II unless and until it receives corresponding royalty and buyout payments under the Underlying Royalty Contracts, and as a result, the Class A, Class F, Class H and Class S units are subject to asset-specific performance risk.

Financing of this nature is expected to remain an important source of capital to the Company as investments in the portfolio mature.

INVESTMENT IN COMMERCIAL AIR PURIFICATION SOLUTIONS

On November 13, 2020, the Company closed a US\$3,000,000 (CA\$3,900,000) investment (the “**Aggregate Investment**”) in The PYURE Company Inc. (“**PYURE**”).

PYURE designs and manufactures commercial air purifiers that provide dynamic protection against a range of pathogens and improve indoor air quality by eliminating volatile organic compounds and odors. PYURE technology mimics the way sunlight sanitizes the outside environment by safely generating hydroxyls and diffusing organic oxidants indoors. The company's flagship product is FDA registered as a class II medical device and PYURE is completing testing on SARS-CoV-2, the virus that causes CoVID-19.

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

FOLLOWON INVESTMENT IN A MACHINE LEARNING-BASED AUTOMATION PLATFORM

On November 4, 2020, the Company closed a follow-on US\$2,000,000 senior secured note investment in Echobox Ltd. (“**Echobox**”). With this investment, Flow Capital has invested a total of US\$3,000,000 (“**Aggregate Investment amount**”) in Echobox.

Echobox is a leading AI platform providing machine learning-based automation solutions to the global publishing industry, serving more than 700 publishers in over 50 countries.

Under the terms of the investment, in addition to the follow-on investment Flow Capital has extended the term of the existing note and, as consideration, will earn a fixed interest on the Aggregate Investment amount and receive warrants at a strike price to be determined at a tiered discount to the next round of equity financing raised by Echobox.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

IMPACT OF COVID-19

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

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

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

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

BUYOUT OF ROYALTY INVESTMENT RETURNING 2.69X OVER 43 MONTHS

On July 22, 2020, eSCRIBE Software Ltd. (“eSCRIBE”) completed a buyout of Flow Capital's royalty investment for \$500,000. Including the monthly royalty payments received by Flow, this represents a cash-on-cash return of approximately 2.69 times the money invested over 43 months.

REDEMPTION OF SERIES B DEBENTURE

On November 6, 2020, the Company announced that it has issued a redemption notice to the holders of all outstanding Series B debentures due on June 30, 2021. Pursuant to the notice, the total outstanding principal amount of the debentures of \$5,087,590 will be redeemed effective December 6, 2020 upon payment of \$1,050 for each \$1,000 principal amount outstanding plus all accrued and unpaid interest.

INVESTMENT IN TELECOM INFRASTRUCTURE FIRM

On April 7, 2020, the Company closed a US\$1,300,000 (the “Aggregate Installment”) royalty investment in Novation Enterprises, LLC (“Novation”). Based in the Washington D.C. area, Novation Enterprises is a veteran-owned, veteran-operated business that builds critical Internet infrastructure, including 5G wireless and fiber optic networks in the US. On June 30, 2020, Novation repaid \$300,000 of the initial Aggregate Installment as it retired an existing receivable linked credit line and the Aggregate Installment was reduced to US\$1,000,000.

This investment builds on the Company's thesis that telecommunication infrastructure build-out (especially 5G), which has also been identified as a priority by the US Government, will remain a key focus area for sustained investment. Novation provides the technical services and professional human resources to fulfil rapid deployment of such infrastructure, by tapping into a large pool of veterans and enhancing their skills for alternate careers post active duty.

Under the terms of the investment, the Company will earn a return equal to the higher of 1.5% per month on the Aggregate Installment, or a royalty rate of 4.0% of the monthly sales of Novation. The royalty rate will be reduced in a tiered structure, once the Company has received 100% and 150% of the Aggregate Installment. The agreement allows for Novation to exercise a buyout option, at any time, by paying the Company a buyout amount, to be calculated per

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

the terms of the agreement. In addition, the Company will earn a success fee in the case the investee closes any defined transaction, including a change of control.

GENERAL DESCRIPTION OF THE BUSINESS

Flow Capital makes cashflow-oriented investments using venture debt and revenue-linked royalty financing structures, in emerging growth businesses (individually, an “investee” and collectively the “investees”). A typical investee is a profitable or near-profitable company, at the cusp of rapid expansion, seeking alternative sources of growth capital without significant dilution from equity financing or restrictive covenants of conventional debt. Flow Capital also provides a range of advisory services to assist investees in fulfilling their growth objectives.

Flow Capital creates shareholder value in three ways. First, by investing in high growth potential businesses using financial structures that provide the investee with capital in exchange for regular interest and principal payments and / or recurring revenue-linked royalty payments. By focusing on cash generating investment structures, the Company ensures a stable, continuous accretion of cash returns on its principal investments. Venture debt typically carries a fixed rate of interest and may or may not be amortizing. The revenue-linked structure earns interest like returns that can expand with the growth of the underlying investee revenue-base. Flow Capital's diverse portfolio of cashflow-oriented investments in investees creates the potential for a stable and growing stream of long-term, recurring revenues.

Secondly, Flow Capital's revenue-linked financing structures are constructed to yield a multiple of the aggregate investment amount on an exit event. Investees typically have an option to buydown or buyout the financing structure, after a minimum tenure, at a multiple of the initial investment. As the investees control the timing of the buyouts, it is not possible to precisely forecast exit events for Flow Capital; however, when buyouts do occur, they can realize material cash-on-cash returns for the Company. Flow Capital's portfolio of diverse royalty contracts provides the potential for numerous royalty buyouts, which could in the future provide cash-on-cash returns in excess of the portfolio's investment cost and recurring revenues from the portfolio.

A third source of shareholder value is long-term returns realized from equity and warrant positions, and from success fees. While Flow Capital does not typically make direct equity investments in its investees, the Company has from time-to-time acquired equity or warrants in exchange for providing an investment or advisory services to investees, or in other cases, such as when an existing financing structure is converted into equity. Further, some investment structures include a success fee payable on a liquidation event for the principals (e.g. a stock exchange listing, change of control, acquisition of the business) for the investee company. Precisely forecasting the future value of equity and warrant positions, or the timing of liquidation events that crystalize the success fees, is not possible for Flow Capital; however, these positions have the potential to create significant shareholder value over the long term, through excess of cash flows from royalty payments, buyouts or buydowns, interest and principal repayments.

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

- Stable, recurring revenues from a diverse portfolio of cashflow-oriented investments in emerging growth companies, over the duration of an active investment, until an exit event is triggered
- Gains on exit events including royalty buyouts or buydowns, and
- Gains from residual value in equity and warrant positions, equity-linked success fees, realized over the longer term.

RESULTS OF OPERATIONS

	Three months ended Sept. 30, 2020	Three months ended Sept. 31, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Revenues	\$ 3,839,196	\$ 472,844	\$ 6,767,079	\$ 2,016,696
Profit/(Loss) for the period	1,845,528	(882,696)	1,503,888	(1,670,008)
EBITDA/EBITDA (Loss) ⁽¹⁾	3,346,929	(362,358)	4,027,865	333,597
Adjusted EBITDA ⁽¹⁾	1,520,157	1,717,040	2,356,004	3,723,199
Free Cash Flow ⁽¹⁾	1,046,986	1,476,633	1,012,378	2,138,164
Basic Earnings/(Loss) per share ⁽³⁾	0.0561	(0.0213)	0.0428	(0.0488)
Diluted Earnings/(Loss) per share ⁽³⁾	0.0561	(0.0213)	0.0428	(0.0488)
Book Value per outstanding share ⁽²⁾⁽³⁾	0.5501	0.6952	0.5501	0.6952
Weighted basic and diluted average number of shares outstanding	32,868,363	41,740,269	35,139,834	41,690,824

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

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

(3) Due to the share alteration which occurred in June 2020, the comparative figures have been restated.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020
Revenue analysis
Three months ended September 30, 2020

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Growth %
Royalty and loan payment income	\$ 1,610,792	\$ 1,340,289	20.2
Realized gain from sale of investments	250,000	807,888	(69.1)
Foreign exchange gain (loss)	(214,793)	179,709	(219.5)
Adjustments to fair value	2,107,434	(2,411,597)	187.4
Realized loss from investments written off	-	(194,952)	N/A
Other income (including other interest income)	85,763	751,117	(88.6)
Total revenue	\$ 3,839,196	\$ 472,844	711.9

Total revenue for the three-month period ended September 30, 2020 was \$3,839,196, a 711.9% increase from \$472,844 for the three-month period ended September 30, 2019. Royalty and loan payment income for the three-month period ended September 30, 2020 was \$1,610,792 representing a 20.2% increase from the \$1,340,289, earned in the three-month period ended September 30, 2019.

Of the \$1,610,792 royalty and loan payment income earned during the three-month period ended September 30, 2020, \$149,680 was contributed by new investments acquired in the last twelve months, \$36,788 was from increased royalty payment income due to growth in revenues of investees and investees resuming to pay a royalty and \$595,334 in catchup payments from a previously non-paying investee. These increases were offset by a reduction of \$511,299 due to royalty buyouts in the last twelve months and seven investments not accruing any income due to non-payment.

Realized gain from sale of investments was \$250,000 for the three-month period ended September 30, 2020 compared to a realized gain of \$807,888 for the three-month period ended September 30, 2019. The realized gain of \$250,000 was in respect of a gain on the buyout of eScribe Software Ltd. ("eScribe"), while the realized gain of \$807,888 during the three-month period ended September 30, 2019 was mainly due to a buyout from Factor75, LLC ("Factor75") for \$993,225.

In accordance with *IFRS 9 Financial Instruments*, all components, some of which are non-cash items, that impact the value of the financial asset must be included in revenue. For the three-month period ended September 30, 2020, revenues were impacted by IFRS 9 net non-cash items of \$1,892,641 compared to \$(2,426,450) for the three-month period ended September 30, 2019. The non-cash amount of \$1,892,641 was made up of \$2,107,434 for adjustments to fair value and \$(214,793) for foreign exchange gain. Adjustments to fair value comprise an increase of \$2,911,734 from fair value adjustments to various royalty and promissory notes investments in the portfolio, offset by \$(804,300) from a decrease in the fair value of equity and warrant positions held in investee companies.

Nine months ended September 30, 2020

	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019	Growth %
Royalty and loan payment income	\$ 3,837,054	\$ 4,343,014	(11.6)
Realized gain (loss) from sale of investments	475,970	(794,202)	159.9
Foreign exchange gain (loss)	229,517	(505,583)	145.4
Adjustments to fair value	1,860,755	2,304,839	(19.3)
Realized loss from investments written off	-	(4,247,375)	N/A
Other income (including other interest income)	363,783	916,003	(60.3)
Total revenue	\$ 6,767,079	\$ 2,016,696	235.6

Total revenue for the nine-month period ended September 30, 2020 was \$6,767,079, a 235.6% increase from \$2,016,696 for the nine-month period ended September 30, 2019. Royalty and loan payment income for the nine-month period ended September 30, 2020 was \$3,837,054 representing a 11.6% decrease from the \$4,343,014, earned in the nine-month period ended September 30, 2019.

Of the \$3,837,054 royalty and loan payment income earned during the nine-month period ended September 30, 2020, \$574,310 was contributed by new investments acquired in the last twelve months and \$248,309 was from increased royalty payment income due to growth in revenues of investees and investees resuming to pay a royalty. These increases were offset by a reduction of \$1,328,579 due to royalty buyouts in the last twelve months and three investments not accruing any income due to non-payment.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Realized gain from sale of investments was \$475,970 for the nine-month period ended September 30, 2020 compared to a realized loss of \$(794,202) for the nine-month period ended September 30, 2019. The realized gain of \$475,970 was in respect of gains on the sale of shares in mCloud Technologies Corp. ("mCloud") and Pulse Oil Corp. ("Pulse") and a gain on the buyout of eScribe. The realized loss of \$(794,202) for the nine-month period ended September 30, 2019 was in respect of a \$993,225 gain on the buyout of Factor75 offset by losses of \$(1,787,427) on the sale of shares in Lattice Biologics Ltd. ("Lattice").

In accordance with *IFRS 9 Financial Instruments*, all components, some of which are non-cash items, that impact the value of the financial asset must be included in revenue. For the nine-month period ended September 30, 2020, revenues were impacted by IFRS 9 net non-cash items of \$2,090,272 compared to \$(2,448,119) for the nine-month period ended September 30, 2019. The non-cash amount of \$2,090,272 was made up of \$1,860,755 for adjustments to fair value and \$229,517 for foreign exchange gain. Adjustments to fair value comprised \$(555,844) from a decrease in the fair value of equity and warrant positions held in investee companies, and \$2,416,599 for fair value adjustments to various royalty and promissory notes investments in the portfolio.

Operating expense analysis

Total operating expenses were \$520,214 and \$2,827,073 for the three-month and nine-month period ended September 30, 2020 compared to \$889,829 and \$2,880,641 for the three-month and nine-month period ended September 30, 2019.

Salaries, benefits, and other staffing costs were \$344,708 and \$1,104,756 for the three-month and nine-month period ended September 30, 2020 compared to \$282,659 and \$920,236 for the three-month and nine-month period ended September 30, 2019. The increase in staffing costs was due to the net addition of four employees to the team during the year.

Restructuring costs were \$447,770 for the three-month and nine-month period ended September 30, 2020, which is a provision recorded as part of restructurings within the Company.

Share-based compensation was \$123,467 and \$294,579 for the three-month and nine-month period ended September 30, 2020 compared to \$37,756 and \$145,513 for the three-month and nine-month period ended September 30, 2019. The year over year increase reflects the expense impact of new options granted and the vesting schedule for the outstanding options as at September 30, 2020.

Depreciation was \$27,947 and \$87,859 for the three-month and nine-month period ended September 30, 2020 compared to \$40,947 and \$121,275 for the three-month and nine-month period ended September 30, 2019.

Professional fees were \$130,816 and \$711,187 for the three-month and nine-month period ended September 30, 2020 compared to \$372,132 and \$1,243,278 for the three-month and nine-month period ended September 30, 2019. Professional fees for the three-month period ended September 30, 2020 compared to the three-month period ended September 30, 2019 were lower by \$241,316 due to decreases in professional fees of \$64,638, legal fees of \$81,965 and accounting and audit fees of \$52,505. Professional fees for the nine-month period ended September 30, 2020 compared to the nine-month period ended September 30, 2019 were lower by \$532,091 due to decreases in professional fees of \$169,497, legal fees of \$233,732 and accounting and audit fees of \$55,573.

Office and general administrative expenses were \$(106,724) and \$180,922 for the three-month and nine-month period ended September 30, 2020 compared to \$156,335 and \$450,339 for the three-month and nine-month period ended September 30, 2019. Office and general administrative expenses for the three-month and nine-month periods ended September 30, 2020 were lower by \$263,059 and \$269,417 mainly due to reduced business travel and meetings on account of CoVID-19, reversal of some excess balances in accruals and payables, and adjustments to lease liabilities.

Free cash flow

Free Cash Flow⁽¹⁾ was \$1,046,986 and \$1,012,378 for the three-month and nine-month period ended September 30, 2020 compared to \$1,476,633 and \$2,138,164 for the three-month and nine-month period ended September 30, 2019. Free Cash Flow⁽²⁾ for the nine months ended September 30, 2020 was \$1,125,786 lower compared to the same period in the prior year. This primarily comprises \$931,578 contributed by the LOGiQ Global Partners business in the prior year, that was subsequently sold in April 2019.

Analysis for further items included in the Results of Operations

Financing expense was \$1,473,454 and \$2,436,118 for the three-month and nine-month period ended September 30, 2020 compared to \$910,158 and \$2,241,982 for the three-month and nine-month period ended September 30, 2019. The net increase of \$194,136 for the nine-month period ended September 30, 2020 was due to the increased interest expense of \$400,906 on account of the redeemable debt raised by the Priority Return Fund in July 2019 and the bonus

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

payment of \$1,000,000 on the redemption of the Priority Return Fund, offset by the reduction in interest expense on debentures of \$1,206,770, as a result of the Series A debenture being repaid during 2019.

EBITDA⁽¹⁾ was \$3,346,929 and \$4,027,865 for the three-month and nine-month period ended September 30, 2020 compared to an EBITDA⁽¹⁾ of \$(362,358) and \$333,597 for the three-month and nine-month period ended September 30, 2019. The year-over-year increase of \$3,694,268 in EBITDA⁽¹⁾ is primarily due to fair value adjustments to the investment portfolio which increased in profit before income taxes by \$4,304,908 and offset by the loss of income of \$771,359 due to the sale of the Global Partners business.

Adjusted EBITDA⁽¹⁾ was \$1,520,157 and \$2,356,004 for the three-month and nine-month period ended September 30, 2020 compared to \$1,717,040 and \$3,723,199 for the three-month and nine-month period ended September 30, 2019. The year-over-year decrease of \$1,367,195 in Adjusted EBITDA⁽¹⁾, was primarily due to adjustments on account of a bargain purchase gain of \$304,908 on the sale of the Global Partners business, the release of deferred income of \$600,000, net differences in long term unrealized gains and losses from adjustments to fair value of \$444,084, foreign exchange differences on royalty agreements of (\$434,927), net differences in realized losses from investments written-off of (\$4,247,375), the expense on the redemption of the bonus units in the Flow Priority Return Fund LP of \$1,000,000 and losses from sale of equity securities (\$1,877,219).

Income taxes were \$NIL for the three-month and nine-month period ended September 30, 2020 compared to \$(430,767) and \$(767,137) for the three-month period and nine-month period ended September 30, 2019. The Company has derecognized all the deferred tax on loss carry forwards due to recent tax losses, and the inability to forecast future taxable profits in the near term. However, the Company's tax losses remain and based on a long-term financial plan prepared by management, the Company forecasts that it will be able to utilize the tax losses before their expiry date.

Profit (loss) after taxes from continuing operations was \$1,845,528 and \$1,503,888 for the three-month and nine-month period ended September 30, 2020 compared to \$(882,696) and \$(1,670,008) for the three-month and nine-month period ended September 30, 2019. The net movement in the profit (loss) after taxes of \$2,728,224 for the three-month period ended September 30, 2020 compared to the three-month period ended September 30, 2019 was primarily due adjustments to fair value in the current period. The net movement in the profit (loss) after taxes of \$3,173,896 for the nine-month period ended September 30, 2020 compared to the nine-month period ended September 30, 2019 was primarily due to realized losses on investments sold and written off, and net adjustments to fair value, in the earlier period.

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

PORTFOLIO UPDATE

Performance Overview

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

As at September 30, 2020, the total realized returns from royalty payments and royalty buyouts⁽¹⁾, since inception, was \$79,527,924 compared to \$60,455,858 as at September 30, 2019, representing 84% and 66% respectively, of the total capital deployed.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

	Three months ended Sept. 30, 2020	Three months ended Sept. 31, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Number of company investments	48	47	48	47
Number of active company investments	23	24	23	24
Number of new company investments in period	-	2	-	5
Number of royalty buyouts since inception	12	11	12	11
Total capital deployed during the period	-	1,487,284	1,399,460	3,132,309
Total capital deployed since inception	\$ 94,565,131	\$ 91,506,832	\$ 94,565,131	\$ 91,506,832
Realized return from royalty payments and royalty buyouts ⁽¹⁾ since inception	\$ 79,527,924	\$ 60,455,858	\$ 79,527,924	\$ 60,455,858
Realized return from royalty payments and royalty buyouts ⁽¹⁾ during the period	\$ 2,300,450	\$ 6,021,563	\$ 5,964,646	\$ 10,230,323
Investments at fair value, at the end of period	\$ 24,232,214	\$ 22,439,410	\$ 24,232,214	\$ 22,439,410

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

Royalty Payments and Royalty Buyouts⁽¹⁾

For the three-month period ended September 30, 2020, the total returns from royalty payments and royalty buyouts⁽¹⁾ was \$2,300,450 compared to \$6,021,563 for the three-month period ended September 30, 2019. The year-over-year decrease for the three-month period ended September 30, 2020 of \$3,721,113, was primarily due to cash returned from buyouts from eScribe of \$500,000 and Novation of \$408,840 in the current period being less than the cash returned in the prior period from a buyout of Factor75 for \$1,982,550 and the repayment of the Universal mCloud Corp. promissory note of \$2,636,400.

The composition of the royalty payments and royalty buyouts⁽¹⁾ for the three-month and twelve-month periods ended September 30, 2020 was made up of as follows:

	Three months ended Sept. 30, 2020	Three months ended Sept 30, 2019	Twelve months ended Sept 30, 2020	Twelve months ended Sept 30, 2019
Royalty and loan payment income	\$ 1,384,063	\$ 1,378,328	\$ 5,173,226	\$ 5,033,415
Royalty buyouts and repayment of promissory notes	916,387	4,618,950	11,942,609	7,407,075
Proceeds from the sale of shares	-	24,285	472,545	451,095
Total	\$ 2,300,450	\$ 6,021,563	\$ 17,588,380	\$ 12,891,585

Royalty Buyouts

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

Investee Company	Date of Royalty Buyout	Date of Investment	Aggregate Investment Amount	Royalty Buyout Amount	Gains Realized on Royalty Buyout	Cumulative Cash Generated Over the Life of the Investment	Cash-on-Cash Return ⁽²⁾
Wmode	July 23, 2015	November 1, 2013	\$1,000,000	\$2,783,010	\$1,783,010	\$3,147,358	3.15
DS Handling	September 25, 2015	September 5, 2014	\$1,000,000	\$1,387,500	\$387,500	\$1,650,268	1.65
INOVx	October 6, 2015	July 1, 2014	US\$2,000,000 (\$2,137,000)	\$2,247,158	\$(11,089) ⁽¹⁾	\$2,722,238	1.27

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Investee Company	Date of Royalty Buyout	Date of Investment	Aggregate Investment Amount	Royalty Buyout Amount	Gains Realized on Royalty Buyout	Cumulative Cash Generated Over the Life of the Investment	Cash-on-Cash Return ⁽²⁾
Above Security	October 20, 2015	August 15, 2014	\$3,000,000	\$6,000,000	\$2,700,000	\$6,453,861	2.15
4Tell	November 17, 2015	December 31, 2013	US\$1,000,000 (\$1,090,215)	\$1,444,377	\$377,862 ⁽¹⁾	\$1,855,519	1.70
Aquam Corporation	April 18, 2017	June 6, 2014	\$2,000,000	\$5,000,000	\$3,000,000	\$7,527,821	3.76
Fixt	February 28, 2018	April 25, 2017	\$125,000	\$250,000	\$125,000	\$276,563	2.21
Boardwalktech	June 21, 2018	December 15, 2017	US\$300,000 (\$386,040)	\$800,400	\$400,200	\$849,073	2.20
Frequenz	December 3, 2018	June 6, 2014	US\$850,000 (\$1,126,130)	\$1,413,125	\$280,628	\$1,718,770	1.53
Agnity/mCloud	July 26, 2019	October 30, 2015	US\$2,750,000 (\$3,609,925)	\$2,636,400 ⁽³⁾	\$(381,025) ⁽³⁾	\$5,172,092 ⁽³⁾	1.43
Factor75	September 30, 2019	December 16, 2016	US\$750,000 (\$985,254)	\$1,982,550	\$993,225	\$2,841,112	2.88
eScribe	July 22, 2020	December 22, 2016	\$250,000	\$500,000	\$250,000	\$671,747	2.69
Total			\$16,959,564	\$26,444,520	\$10,286,636	\$34,886,422	2.09

(1) These amounts include foreign exchange gains of \$422,898 and \$264,285 respectively realized when the royalty agreement was bought out.

(2) Calculated by taking Cumulative Cash Generated Over the Life of the Investment over the Aggregate Investment Amount.

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

Excluding royalty payments, the Company has received \$26,444,520 from royalty buyouts to date. Cash generated from royalty buyouts remains for Flow Capital the most competitive low-cost form of capital for growth. The Company expects that royalty buyouts will continue to crystalize in the future.

In July 2020, the Company agreed to the buyout of a royalty investment, conditional on the investee completing a Reverse-Takeover (RTO) with a TSXV listed company, and a concurrent financing. In October 2020, the terms of the buyout agreement were amended to i) revise the concurrent financing threshold to a minimum of \$2,300,000; ii) decrease the cash to be received by the Company to a minimum of \$1,000,000, and; iii) increase the number of common shares in the resulting issuer to be received by the Company to 5,511,111. This transaction is expected to be completed by November 30, 2020.

In July 2020, the Company received notification of a potential buyout for a second royalty investment. Under the terms of this investment, the buyout value is to be determined the higher of 5% of the net equity value of the investee company, or \$1,500,000. The Company and the investee company have appointed an independent valuation professional to determine an arms-length estimate of the equity value of the investee. This transaction is expected to be completed by December 31, 2020.

Portfolio Activity

As of September 30, 2020, a summary of the active investment profile was as follows:

	September 30, 2020	December 31, 2019
	#	#
Investments - fully paying	15	15
Investment – royalty past due	2	1
Investment – delinquent/distressed/in legal process	6	7
Total	23	23

The total number of active investments as at September 30, 2020 has remained unchanged since December 2019 due to the closing of one new investment during the period offset by the buyout of another investment during the period.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Two active investments are past due as at September 30, 2020. In July 2020, one previously distressed investee company repaid all arrears and legal expenses amounting to over \$600,000, and the investee has been reinstated as an active investment.

Past due for payments outstanding on investments at fair value

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

	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019	September 30, 2019
Past due					
- 30 days or less	\$ 35,416	\$ 19,791	\$ 19,791	\$ 19,791	\$ 52,217
- 31 to 60 days	19,791	-	-	-	-
- 61 to 90 days	19,791	-	-	-	-
- Over 91 days	-	-	-	-	-
Total	\$ 74,998	\$ 19,791	\$ 19,791	\$ 19,791	\$ 52,217

In relation to the above table:

- Of the total past due at September 30, 2020, \$15,625 was paid during October 2020.
- As of September 30, 2020, there were \$307,767 of outstanding royalty payments compared to \$303,468 as at December 31, 2019, where the fair value recognized was zero.

The Company is actively pursuing legal proceedings against investees who are in default under the terms of the investment. Legal proceedings include commencing actions, obtaining defaults judgements and, where necessary, appointing a receiver. The Company expects that the legal proceedings against all investees will continue for some time until a satisfactory outcome is reached. The Company will report when there is a significant development in the legal proceeding such as a recovery.

Following is an update on material developments in legal proceedings, for the nine-month period ended September 30, 2020;

The Company was awarded favorable judgments in the legal proceedings previously initiated against Lattice and its wholly-owned subsidiary on January 24, 2020 and February 20, 2020, respectively. The proceedings are for claims of approximately US\$1,300,000 collectively. The Company have security for approximately US\$900,000 of the claim. The next step is to consider and pursue options to enforce on said judgments to maximize recovery.

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Value of Underlying Financial Assets

Flow Capital's financial assets are measured at fair value (refer Note 6 of the financial statements for details). The total estimated fair value of Flow Capital's non-cash financial assets as at September 30, 2020 was \$24,232,214 compared to \$22,439,410 on December 31, 2019.

Nine months ended September 30, 2020				
	Royalty agreements acquired	Equity securities in investee companies	Promissory notes receivable	Total
Balance as at December 31, 2019	\$ 16,414,085	\$ 2,494,443	\$ 3,530,882	\$ 22,439,410
New investments during the period	1,399,460	-	70,935	1,470,395
Repayment of promissory note	-	-	(1,500,000)	(1,500,000)
Proceeds received on sale of shares	-	(225,970)	-	(225,970)
Gain recognized on sale of shares – net	-	225,970	-	225,970
Redemptions and contract buydowns	(357,704)	-	-	(354,704)
Royalty earned and payments received- net	99,068	-	-	99,068
Foreign exchange movements	186,430	-	30,860	217,290
Adjustment to fair value	2,262,962	(555,844)	153,637	1,860,755
Balance as at September 30, 2020	\$ 20,007,301	\$ 1,938,599	\$ 2,286,314	\$ 24,232,214

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

On March 30, 2020, the Company received \$1,500,000 from Ninepoint, as repayment of a promissory note issued in April 2019.

During the nine-month period ended September 30, 2020, the adjustments to fair value were \$1,860,755. Of this amount, \$(555,844) related to fair value adjustments for shares and warrants held in investee companies, and \$2,416,599 was in respect of fair value adjustments to various royalty and loan investments in the portfolio. Adjustments to fair value are unrealized by their nature and in a portfolio as diverse as Flow Capital's, there will be movements up and down from reporting period to reporting period.

Significant movements in the USDCAD foreign exchange rates over the nine-month period ended September 30, 2020 contributed to an unrealized gain of \$217,290 for the reporting period. Flow Capital has approximately 60% of its portfolio in USD denominated investments, and there will be foreign exchange related movements from reporting period to reporting period.

The Company has from time-to-time earned equity or warrants in exchange for providing an investment or advisory services to investees, or in other cases, such as when an existing royalty is converted into equity. A summary of the significant equity securities in the portfolio as of September 30, 2020, was as follows:

	# of securities	Cost Sept. 30, 2020	Carrying amount Sept. 30, 2020
Common shares (publicly traded)			
Inner Spirit Holdings Ltd.	13,855,000	\$ 962,374	\$ 1,524,050
Boardwalktech Software Corp.	70,684	152,841	38,169
Medical Imaging Corp.	4,000,000	-	-
mCloud Technologies Corp.	60,000	237,000	138,000
Pulse Oil Corp.	601,572	27,071	12,031
Common shares (not publicly traded)			
Crimson Energy Ltd. (not publicly traded)	1,871,358	299,528	-
Warrants (not publicly traded)			
Boardwalktech Software Corp.	319,540	1,365,572	34,012
DionyMed Holdings Inc.	190,000	53,442	-
Stability Healthcare Inc.	90,152	90,395	-

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

	# of securities	Cost Sept. 30, 2020	Carrying amount Sept. 30, 2020
First Crypto Inc.	4,000,000	-	-
Spiridon Technologies Ltd.	6,000,000	-	155,096
Echobox Ltd.	169,370	14,544	14,544
DirecTech Labs Inc.	354,661	-	-
Wirkn Inc.	1,281,339	205,014	22,697
Wedge Networks Inc.	1,250,000	-	-
Total		\$ 3,407,781	\$ 1,938,599

Not included in the table above, is the Company's right to receive 5% of any proceeds beyond US\$4,500,000 if Frequentz, a company in which Flow Capital previously had a royalty that was bought-out, were to sell its assets in the future. For mCloud, in addition to the 150,000 (post a 10:1 consolidation) mCloud shares received, the Company will earn another 350,000 shares (post consolidation) if certain milestones are met by January 2025.

OUTLOOK

Flow Capital targets its investments at profitable or near-profitable emerging growth businesses looking to fuel expansion without the dilution of equity or restrictive covenants of conventional debt. With over thirty million small and medium sized businesses in the United States and Canada, and tens of millions of others in Flow Capital's addressable geographies and sectors, there is a very large market of potential investment opportunities.

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

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

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

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

Flow Capital's long-term strategy for scaling the business is to increase its book value by reinvesting cash yielded from recurring revenues and other non-recurring cash inflows into new cash-flow oriented investments in emerging growth companies. Given that in the majority of our investments investee companies contract for a cash-on-cash return of a multiple over the invested capital, not including upside from warrants, over the long run it is expected that the Company's book value will grow, notwithstanding losses from failed investments. As with any portfolio of investments in the dynamic emerging growth asset class, there will always be failed investments in Flow Capital's portfolio. That said, it is the Company's mandate to minimize the incidence of losses while at the same time overcoming those losses with excess returns from the rest of the portfolio.

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

SUMMARY OF QUARTERLY RESULTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

	Three months ended Sept. 30, 2020	Three months ended June 30, 2020	Three months ended March 31, 2020	Three months ended Dec. 31, 2019	Three months ended Sept. 30, 2019	Three months ended June 30, 2019	Three months ended March 31, 2019	Three months ended December 31, 2018
Royalty payment and loan interest income	\$ 1,610,792	\$ 1,295,928	\$ 930,333	\$1,233,713	\$1,340,289	\$1,474,893	\$1,527,833	\$1,209,263
Realized gain (loss) on royalty buyouts/sale of investments	(750,000)	-	225,970	6,117	807,888	(708,254)	(893,838)	282,646
Non-cash foreign exchange and adjustments to fair value	2,892,641	322,222	(124,591)	586,292	(2,426,450)	(1,356,603)	1,334,934	(2,524,769)
Other income	85,763	216,795	61,225	183,552	751,117	80,020	84,866	41,420
Total revenue	3,839,196	1,834,945	1,092,937	\$2,009,674	\$472,844	\$(509,944)	\$2,053,795	\$(991,440)
Total profit (loss) for the period attributable to shareholders	1,845,528	27,895	(369,536)	(10,188,782)	(882,696)	(1,000,862)	(213,550)	(2,458,672)
Basic earnings / (loss) per share	0.0561	0.0007	(0.0048)	(0.1296)	(0.0107)	(0.0167)	0.0025	(0.0282)
Diluted earnings / (loss) per share	0.0561	0.0007	(0.0048)	(0.1296)	(0.0107)	(0.0167)	0.0025	(0.0282)

The trend in royalty payment income from the three-month period ended December 31, 2018 through to the three-month period ended September 30, 2020, reflects an initial net growth of the investment portfolio followed by buydowns and buyouts, and one investee that was in arrears remitting all outstanding payments in full in the recent quarter. For the three-month periods ended March 31, 2019, June 30, 2019, September 30, 2019 and December 31, 2019, results include a loss of \$(65,851), a profit of \$416,045, a profit of \$13,680 and a profit of \$2,976, respectively, from discontinued operations for a business that was sold in April 2019.

LIQUIDITY AND CAPITAL RESOURCES

At September 30, 2020, the Company's capital resources were \$17,861,600 made up as follows:

32,470,077 common shares	\$ 52,647,266
Warrants	486,624
Contributed surplus	547,201
Accumulated other comprehensive income	71,100
Accumulated Deficit	(35,890,591)
Total Equity	\$ 17,861,600

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

Offering	Closing Date	Gross Proceeds	Net Proceeds	Amount used to acquire investments as of November 17, 2020	Amount yet to be used as of November 17, 2020
20,000,000 special warrants exercisable into common shares @ \$0.50 per special warrant	March 27, 2014	\$10,000,000	\$9,051,436	\$9,051,436	-
\$17,250,000 8% convertible unsecured subordinated debentures	July 10, 2014	\$17,250,000	\$15,905,455	\$15,905,455	-

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Offering	Closing Date	Gross Proceeds	Net Proceeds	Amount used to acquire investments as of November 17, 2020	Amount yet to be used as of November 17, 2020
19,828,300 common shares @ \$0.58 per share	February 26, 2015	\$11,500,414	\$10,517,207	\$10,517,207	-
17,250,000 common shares @ \$0.80 per share	May 7, 2015	\$13,800,000	\$12,811,549	\$12,811,549	-
10,000,000 Class A units in Priority Return Fund	July 24, 2019	\$10,000,000	\$10,000,000	\$ 3,396,880	-

The Company redeemed 1,982,550, 1,000,000 and 500,000 of the Class A units of the PRF I on October 2, 2019, February 28, 2020, and July 27, 2020, respectively. On September 30, 2020, the Company redeemed all the outstanding Class A and Class D units in PRF I. Concurrently, the Company launched PRF II and collected an advance of \$885,000 towards subscriptions in PRF II Class F units. Further, approximately 70% of the amount payable on redemption of PRF I was reinvested in PRF II, with several investors further topping-up their investment. On October 15, 2020, the Company closed a \$17,000,000 financing through PRF II, as the first close towards a total of \$25,000,000.

The Company's cash position at November 17, 2020 is approximately \$7.7 million, and the Company is satisfied that it has sufficient cash resources to meet all current obligations and provide capital for the future growth of the business. Free Cash Flow⁽¹⁾ generated from royalty and loan payment income, proceeds from royalty buyouts and sale of equity investments will continue to be an important source of capital for the Company.

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

WORKING CAPITAL

Flow Capital's working capital at September 30, 2020 and September 30, 2019 was made up as follows:

	Sept. 30, 2020	Sept. 30, 2019
Cash and cash equivalents	\$ 9,271,694	\$ 21,842,696
Investments at fair value – current portion	3,808,889	11,443,806
Accounts receivable and accrued income	2,686	12,758
Prepaid expense and other receivable	671,158	804,329
Finance lease asset – current portion	427,389	778,030
Accounts payable and accrued expenses	(1,826,160)	(2,109,174)
Deferred tax payable	(12,537)	-
Income tax payable	-	(70,507)
Prepaid royalty payment and interest income	(37,820)	-
Convertible debentures	(4,798,295)	(16,828,525)
Lease liability – current portion	(974,911)	(1,311,315)
Redeemable debt – current portion	(2,252,288)	(1,982,550)
Total	\$ 4,279,805	\$ 12,579,548

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

On May 25, 2020, the Company announced a Normal Course Issuer Bid ("NCIB"), commencing June 2, 2020, to purchase, for cancellation up to \$512,259 principal amount of the \$5,122,590 principal amount Series B debentures due June 30, 2021. This represents 10% of the public float of the Series B debentures. The NCIB will terminate upon the earliest of (i) the Company purchasing \$512,259 principal amount of the Series B debentures, (ii) the Company providing notice of termination of the NCIB, and (iii) June 2, 2021. Since June 2, 2020, the Company has repurchased \$35,000 Series B debentures at a weighted average price per share of \$0.9711 for a total cost of \$34,210.

A summary of the contractual and other obligations as at September 30, 2020 were:

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Contractual obligation	Total	Less than 1 year	1-5 years	Not determinable
Accounts payable and accrued liabilities	\$ 1,826,160	\$ 1,826,160	\$ -	\$ -
Lease liability	1,342,804	974,911	367,893	-
Redeemable debt	8,468,538	2,252,288	-	6,216,250
Series B Convertible debenture	5,087,590	5,087,590	-	-
Total	\$ 16,725,092	\$ 10,140,949	\$ 367,893	\$ 6,216,250

FINANCIAL INSTRUMENTS

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

As at September 30, 2020, the maximum credit exposure for all financial assets excluding cash and cash equivalents and equity securities in investee companies was \$24,043,219 (December 31, 2019: \$22,321,073). The Company has foreign currency exposures to United States dollars. The transaction exposure will be minimized by converting all foreign currency to Canadian dollars or using the funds for investments made in the United States. The Company is aware that a translation exposure exists and will continue to monitor the impact on its reported results and take the required hedging action when management considers it necessary. The foreign exchange exposure at September 30, 2020 was US\$15,172,200.

Since January 1, 2015, the Company classified and measured subsequently all financial assets at fair value through profit and loss. The fair value of investments at fair value excluding equity securities in investee companies, were estimated by the Company by discounting expected future cash flows using a discount rate that includes a weighted average cost of capital using variables from the industry in which each investee company operates and company specific risk factors. Future cash flows are weighted by the Company by using a combination of a probability approach and a terminal value approach, and the fair value for each investment is individually calculated by discounting estimated future cash flows using a discount rate that considers the size of the investee, term, credit risk and changes in market conditions. The impact of the measurement of the royalty agreements acquired and promissory notes receivable that was recognized in the total comprehensive income (loss) for the three months ended September 30, 2020 were \$3,280,333 from adjustments to fair value.

The Company holds a number of equity investments in listed and unlisted entities. The equity investments include both common shares and warrants. For shares and warrants listed on a recognized stock exchange and traded actively, the fair value of the shares held was determined by reference to the closing share price. For unquoted equity investments, the fair value was determined using the valuation technique referred to as the market approach which uses transaction prices paid for an identical or similar instrument or comparable company valuation multiples. The impact during the three months ended September 30, 2020 for the valuation of equity investments that was recognized in the total comprehensive income (loss) were \$(804,300) from adjustments to fair value.

Cash and cash equivalents are classified as subsequently measured at fair value through profit or loss. All cash and cash equivalents were invested in short-term high-quality liquid investments. In the opinion of management these measures ensure that the Company is not exposed to material credit or liquidity risks on these cash and cash equivalent balances. The convertible debenture balance at September 30, 2020 and December 31, 2019 was based on the amortized cost using the effective interest rate method.

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

The Company does not hold any financial derivatives at September 30, 2020 or at any time during the three-month period ended June 30, 2019, either for hedging or speculative purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

COMMITMENTS, CONTINGENCIES AND OFF-BALANCE SHEET ARRANGEMENTS

As at September 30, 2020, Flow Capital had no commitments for material capital expenditures and no off-balance sheet arrangements.

As at September 30, 2020, the only material contractual obligations were the convertible debentures, redeemable debt and lease liability (see Liquidity and Capital Resources).

Note 26 of the financial statements for the nine months ended September 30, 2020, describe the contingent liabilities of the Company.

The first contingent liability relates to litigation for a claim of \$5,000,000 as well as seeks punitive damages in the amount of \$5,000,000 where one of the Company's subsidiaries is a co-defendant. The Company will continue to defend against the claim. The amount of the losses, if any, cannot be reasonably determined at this time.

A contingent liability relates to an indemnity under a share purchase agreement dated March 11, 2016 (the "SPA") with Brant Securities Limited ("Brant") for the sale of a wholly owned subsidiary. Under the SPA, the Company agreed to indemnify Brant in respect of certain claims, limited to a maximum amount of \$300,000. The Company believe that no payment will be required because of recourse in other agreements made with Brant.

In January 2019, the Company was served with a statement of claim on behalf of a former employee of Front Street Capital 2004. The claim is for damages and wrongful dismissal and it relates back to the period prior to December 2016. On January 31, 2019, the Company have filed a Notice of Intent to Defend. This claim is over two years and as a result the amount of the liability, if any, cannot be reasonably determined at this time.

In June 2019, the Company was served with a statement of claim on behalf of an employee who was employed by the Global Partners business prior to its sale and who decided not to take up the employment offer by the buyer when the business was sold in April 2019. The claim is for \$500,000 for damages for wrongful dismissal and breach of employment contract and \$100,000 for aggravated and general damages. On June 19, 2019, the Company filed a Notice of Intent to Defend. On July 15, 2019, Flow Capital filed a statement of defense and a counterclaim for i) repayment of \$50,000 promissory note and ii) a counterclaim of \$375,000 for intentional interference in the transaction selling the Global Partners business. As the employee himself terminated his employment with the Company and decided not to take up the buyer's employment offer, the amount of the liability, if any, cannot be reasonably determined at this time.

In November 2019, the Company undertook a commitment to complete a restructuring. This restructuring involves a contract payment to an employee who was a key management personnel during the three months ended March 31, 2020. The final contract payment amount has not been finalized and the Company recorded a provision of \$293,750 on December 31, 2019.

TRANSACTIONS BETWEEN RELATED PARTIES

Key management personnel

i) Compensation

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Short-term employee benefits	\$ 251,343	\$ 207,979	\$ 614,274	\$ 619,369
Share-based compensation	111,078	43,539	282,190	129,524
Consultancy fees	-	109,619	118,222	279,753
Total	\$ 362,421	\$ 361,137	\$ 1,014,686	\$ 1,028,646

ii) Other transactions

In July 2019, the Company, through a limited partnership called Priority Return Fund, raised \$10,000,000 in financing. Of the \$10,000,000 redeemable debt raised, \$1,600,000 was subscribed for by certain key management personnel. During the three and nine months ended September 30, 2020, interest of \$36,773 and \$116,523, respectively, was accrued and expensed on the redeemable debt held by the key management personnel. As at September 30, 2020, \$1,303,490 of redeemable debt was held by key management personnel. On September 30, 2020, the Company allocated the Priority Return Fund bonus units to unitholders and \$200,000 of these bonus units were held by key management personnel.

On September 30, 2020, the Company launched Priority Return Fund II LP to raise capital up to \$25,000,000 with a first close of \$17,075,000. Key management personnel have committed \$1,775,000 for Class F units in the first closing.

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

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

In May 2020, the Company undertook a commitment to complete a restructuring. This restructuring involves a contract payment to an employee who was a key management personnel during the nine months ended September 30, 2020. The final contract payment amount is US\$328,791 and the Company recorded a provision for this amount during the nine months ended September 30, 2020.

A subsidiary of the Company had provided a loan of US\$150,000 to a former member of the key management personnel that was repaid during the nine months ended September 30, 2020. The interest income received was as follows:

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Total	\$ -	\$ 876	\$ 1,721	\$ 2,600

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

LIMITATIONS OF CONTROLS AND PROCEDURES

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

CRITICAL ACCOUNTING ESTIMATES AND POLICIES

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

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

The terms of the royalty agreements provide that payments are made by investee companies and the Company had concluded that it is highly probable (which it defines as a probability equal to or exceeding 75%) that it will collect greater than 85% of its initial investment under each royalty agreement on the basis that each royalty agreement contains one or more of the following terms: (i) a right in favour of the investee company to buydown or royalty buyout part or all of the Company's royalty in exchange for a principal payment that, when combined with royalty payments made to the date of the buydown or royalty buyout, exceed the value of the Company's initial investment; and (ii) the payment of a minimum monthly royalty payment by the investee company, which provides the Company with certainty of payment over time. The term of the agreement is normally perpetual, and the royalty amount received can be

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

dependent on the revenues of the investee. As a result, uncertainties exist as to how long the agreements will exist and the royalty payment income that will be received throughout the agreement. The Company must estimate the expected cash flows based on the Company's experience of such investments, the terms of the agreement and the investee's historical cash flows. Those royalty agreements that contain a provision requiring an investee company to make a minimum monthly royalty payment provide the Company with a strong indication of what expected cash flows under that royalty agreement should be over time. In addition to historical revenues of investee companies, the Company also considers other factors, such as external market factors, future performance, and industry performance, in estimating expected cash flows from an investment.

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

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

RECENT ACCOUNTING DEVELOPMENTS

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

OUTSTANDING SHARES

The Company is authorized to issue an unlimited number of common shares, without nominal or par value, and no other classes of shares. As of November 17, 2020, there were issued and outstanding: (a) 32,470,077 Common Shares; (b) 3,513,568 options under the company's stock option plan to acquire common shares, at a weighted average exercise price of \$0.3989; (c) convertible debentures at an average conversion price of \$3.60 (or a conversion rate of 138.89 common shares for each \$1,000 principal amount of debentures) which, if converted into common shares at that price, would result in the issuance of 710,426 common shares; and (d) 2,516,345 warrants to acquire 2,516,345 common shares at an exercise price of \$0.44.

RISK FACTORS

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

Dependence on the Performance of Investee Companies

The Company will be dependent on the operations, assets and financial health of the SMEs from which royalties are purchased. The ability to meet operating expenses in the long-term will be largely dependent on the royalty payments received from investee companies and realized gains on royalty buyouts which will be the primary sources of cash flow. Royalty payments from investee companies will generally be based on a percentage of such companies' top line revenues. Accordingly, if the financial performance of an investee company declines, cash payments to the Company will likely decline. The failure of any investee company to fulfill its royalty payment obligations could adversely affect

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

the Company's results of operations, prospects or cash flow and could threaten the Company's business, financial condition, ability to satisfy its obligations, pay dividends, or continue as a going concern. The Company conducts due diligence on each of its investee companies prior to entering into agreements with them and monitors investee company activities by receiving and reviewing regular financial reports. Nonetheless, there is a risk that there may be some liabilities or other matters that are not identified through the due diligence or ongoing monitoring that may have an adverse effect on an investee company's business, and this could have a material adverse impact on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations, pay dividends or continue as a going concern.

Limited Number of Investee Companies and Concentration Risk

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

Limited Control Over Investee Company Management

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

Risk of Payment Defaults under Royalty Agreements

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

Equity Risk

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

Regulatory Risks Relating to U.S. Cannabis Investment

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

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

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

Unless and until the United States Congress amends the United States *Controlled Substances Act* with respect to cannabis or the Drug Enforcement Agency reschedules or de-schedules cannabis (and as to the timing or scope of any such potential amendments there can be no assurance), there is a risk that federal authorities may enforce current

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

federal law, which would adversely affect our investment in DionyMed. Although Flow Capital's activities are compliant with applicable U.S. state and local law, strict compliance with state laws with respect to cannabis will neither absolve us of liability under United States federal law, nor will it provide a defense to any federal proceeding which may be brought against us. Any such proceedings brought against us may have a material adverse effect on our business, financial condition, results of operations or prospects and could threaten our ability to satisfy our obligations, raise capital, pay dividends or continue as a going concern.

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

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

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

The Company may be subject to heightened scrutiny by Canadian authorities

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

On February 8, 2018, following discussions with the Canadian Securities Administrators ("**CSA**") and recognized Canadian securities exchanges, the TMX Group announced the signing of a Memorandum of Understanding ("**MOU**") with Aequitas NEO Exchange Inc., the CSE, the Toronto Stock Exchange, and the TSXV. The MOU outlines the parties' understanding of Canada's regulatory framework applicable to the rules, procedures, and regulatory oversight of the exchanges and CDS as it relates to issuers with cannabis-related activities in the United States. The MOU confirms, with respect to the clearing of listed securities, that CDS relies on the exchanges to review the conduct of listed issuers. As a result, there is no CDS ban on the clearing of securities of issuers with cannabis-related activities in the United States. However, there can be no guarantee that this approach to regulation will continue in the future. If such a ban were to be implemented, it would have a material adverse effect on the ability of holders of our Common Shares to make and settle trades. In particular, our Common Shares would become highly illiquid as, until an alternative was implemented, investors would have no ability to effect a trade of our Common Shares through the facilities of a stock exchange.

In addition, on February 8, 2018 the CSA published a staff notice (Staff Notice 51-352) setting out the CSA's disclosure expectations for specific risks facing issuers with cannabis-related activities in the United States. Staff Notice 51-352 confirms that a disclosure-based approach remains appropriate for issuers with U.S. cannabis-related activities. Staff Notice 51-352 includes additional disclosure expectations that apply to all issuers with U.S. cannabis-related activities,

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

including those with direct and indirect involvement in the cultivation and distribution of cannabis, as well as issuers that provide goods and services to third parties involved in the U.S. cannabis industry.

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

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

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

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

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

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

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

Volatility of Share Price

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Financing Risks

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

Outstanding Debt

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

Dilution

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

Early Stage of Development

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

Ability to Negotiate Additional Royalty Purchases

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

Ability to Manage Future Growth

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

Exercise of Buyout Option

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

Risks Facing Investee Companies

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

- Investee companies may need to raise capital through equity or debt financing. Such equity or debt may impair the ability of the investee companies to finance their future operations and capital needs. Flexibility to respond to changing business and economic conditions and to business opportunities may thereby be limited.
- The success of the Company's investee companies may depend on the management talents and efforts of one or two persons or a small group of persons. The death, disability or resignation of one or more of these persons could have a material adverse impact on an investee company.
- Investee companies may require additional working capital to carry out their business activities and to expand their businesses. If such working capital is not available, the financial performance and development of the businesses of the investee companies may be adversely affected.
- Damage to the reputation of the brands of the investee companies could negatively impact consumer opinion of those companies or their related products and services, which could have an adverse effect on their businesses.
- Investee companies may face intense competition, including competition from companies with greater financial and other resources, more extensive development, manufacturing, marketing, and other capabilities. There can be no assurance that the investee companies will be able to successfully compete against their competitors or that such competition will not have a material adverse effect on their businesses.
- Investee companies may experience reduced revenues with the loss of a customer representing a high percentage of their monthly revenues.
- Investee companies may experience reduced revenues due to an inability to meet regulatory requirements or may experience losses of revenues due to unforeseeable changes in regulations imposed by various levels of government.
- Investee companies may rely on government or other subsidy programs for revenue or profit generation. Changes or elimination of such programs may have an adverse effect on the company.
- Investee companies may derive some of their revenues from non-Canadian sources and may experience negative financial results based on foreign exchange losses.
- Investee companies' businesses may be impacted by a fallout from COVID-19 as regulations enforcing social distancing and lockdown continue to restrict operations and consumer spending. The duration and scope of these restrictions may have an adverse effect on the investee companies.

Impact of Regulation and Regulatory Changes

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

Foreign Account Tax Compliance

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

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

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

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

Pursuant to the IGA, the Tax Act and published CRA guidance, we may be a reporting Canadian financial institution. We will continuously monitor any future guidance from the IRS and/or the CRA and will comply with any future changes

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

in guidance as they relate to us to ensure that we are fully compliant with any differing or additional requirements that such guidance may dictate.

Tax Matters

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

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

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

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

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

COVID-19 Impact

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

PFIC Status for U.S. Investors

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

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

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

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

Competition from Other Investment Companies

The Company competes with a number of private equity funds and mezzanine funds, investment banks, equity and non-equity based investment funds and other sources of financing, including the public capital markets. Some of the Company's competitors are substantially larger and have considerably greater financial resources than the Company does. Competitors may have a lower cost of funds and many have access to funding sources and unique structures that are not available to the Company. In addition, some of the competitors may have higher risk tolerances or different

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

risk assessments, which could allow them to consider a wider variety of investments than the Company. Pressure from the Company's competitors may have a material adverse effect on the Company's business, financial condition, results of operations or prospects and could threaten the Company's ability to satisfy its obligations, pay dividends or continue as a going concern.

Impact of Quarterly and Annual Financial Reporting

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

Payment of Dividends

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

Currency Fluctuations

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

Reliance on Key Personnel

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

Conflicts of Interest

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

Effect of General Economic and Political Conditions

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

Sale of Common Shares by Existing Shareholders

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Legal Proceedings

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

Analyst Reports

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

Accounting Policies and Methods

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

APPROVAL

The Board of Directors of the Company approved this MD&A on November 17, 2020.

ADDITIONAL INFORMATION

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020
DEFINITION OF NON-IFRS MEASURES

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

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

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

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Profit (Loss) before income taxes	\$ 1,845,528	\$ (1,327,143)	\$ 1,503,888	\$ (2,801,019)
Income from discontinued operations before income taxes	-	13,680	-	363,874
Depreciation – continuing operations	27,947	40,947	87,859	121,275
Amortization – discontinued operations	-	-	-	407,485
Financing expense	1,473,454	910,158	2,436,118	2,241,982
EBITDA (EBITDA Loss)	3,346,929	(362,358)	4,027,865	333,597
Adjustments:				
Bargain purchase gain	-	-	-	(304,908)
Unrealized foreign exchange (gain)/loss on royalty agreements	157,195	(149,854)	(105,685)	329,242
Adjustments to fair value	(2,107,434)	2,411,597	(1,860,755)	(2,304,839)
Realized loss from investments written-off	-	194,952	-	4,248,375
Realized loss from sale of equity securities	-	185,337	-	1,877,219
Release of deferred fee income	-	(600,000)	-	(600,000)
Share-based payment expense	123,467	37,756	294,579	145,513
Adjusted EBITDA	\$ 1,520,157	\$ 1,717,040	\$ 2,356,004	\$ 3,723,199

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

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

	Three months ended Sept. 30, 2020	Three months ended Sept. 30, 2019	Nine months ended Sept. 30, 2020	Nine months ended Sept. 30, 2019
Net cash generated by (used in) operating activities	\$ 1,567,258	\$ 3,770,179	\$ 2,230,507	\$ 4,015,803
Investments at fair value – new investments	-	1,487,284	1,470,395	3,132,309
Investments at fair value – royalty buyouts	(250,000)	(985,254)	(250,000)	(985,254)
Investments at fair value – redemptions	-	(2,630,621)	(1,570,935)	(2,630,621)
Investments at fair value – gain realized on shares received on a buyout	-	592,500	(162,500)	592,500
Investments at fair value – proceeds from sale of equity investments	-	(24,285)	(225,970)	(385,376)
Investments at fair value – gain recognized from sale of equity investments	-	-	225,970	84,404
Other receivables collected	-	-	194,820	-
Interest paid	(279,112)	(139,261)	(908,749)	(998,747)
Interest payable – movement in period	8,840	(533,201)	8,840	(536,557)
Income tax recoverable/payable - movement in period	-	(60,708)	-	(150,297)
Free Cash Flow	\$ 1,046,986	\$ 1,476,633	\$ 1,012,378	\$ 2,138,164

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

Cash returned from royalty payments and royalty buyouts represents the actual cash received under all royalty agreements, promissory notes and equity investments through royalty payment income, interest income on the promissory notes, realized gains on royalty buyouts, principal payments and redemptions on the promissory notes, capital returned from royalty buyouts and buydowns and capital returned from the sale of equity investments. The following table reconciles the cash returned from royalty payments and royalty buyouts as of September 30, 2020 and September 30, 2019 respectively to IFRS measures reported in the financial statements for the periods:

Description	Total cash returned from royalty payments and royalty buyouts since inception	Nine months ended September 30, 2020	Year ended December 31, 2019	Since inception to the year ended December 31, 2018
Royalty payment income	35,725,565	3,551,825	4,342,510	27,831,230
Interest income on promissory notes and loans	2,392,972	248,345	1,234,217	910,410
Realized gain on royalty buyouts	9,601,170	250,000	993,225	8,357,945
Principal payments on promissory notes	15,982,888	1,500,000	13,511,400	971,488
Redemptions on promissory notes	1,210,376	-	-	1,210,376
Capital returned from royalty buyouts	13,654,704	250,000	989,325	12,415,379
Capital returned from royalty buydowns and recovery	2,053,186	408,840	-	1,644,346
Proceeds received on sale of shares	1,068,342	225,970	651,700	190,672
Royalty and interest added and recognized in investment balance	(292,838)	-	-	(292,838)
Recovery from investment written-off	50,000	-	-	50,000
Foreign exchange realized gains on royalty buyouts	710,139	-	-	710,139
Royalty earned and converted to equity	(205,000)	-	-	-
Accounts receivable written-off	(2,164,830)	-	-	-

MANAGEMENT'S DISCUSSION AND ANALYSIS – September 2020

Description	Total cash returned from royalty payments and royalty buyouts since inception	Nine months ended September 30, 2020	Year ended December 31, 2019	Since inception to the year ended December 31, 2018
Accounts receivable balance	(259,345)	-	-	-
Prepaid royalty payment and interest income	37,820	37,820	-	-
Fair value of accounts receivable written down	(307,225)	-	-	-
Total	79,257,924			

Description	Total cash returned from royalty payments and royalty buyouts since inception	Nine months ended September 30, 2019	Since inception to the year ended December 31, 2018
Royalty payment income	31,206,075	3,374,845	27,831,230
Interest income on promissory notes and loans	1,878,579	968,169	910,410
Realized gain on royalty buyouts	9,356,558	998,613	8,357,945
Principal payments on promissory notes	2,960,638	2,636,400	324,238
Redemptions on promissory notes	2,735,296	-	2,735,296
Capital returned from royalty buyouts	12,527,034	989,325	11,537,709
Capital returned from royalty buydowns	1,644,346	-	1,644,346
Proceeds received on sale of shares	576,048	385,376	190,672
Recovery of investment written-off	50,000	-	50,000
Royalty and interest added and recognized in investment balance	(292,838)	-	(292,838)
Foreign exchange realized gains and (losses)	710,139	-	710,139
Royalty earned and converted to equity	(205,000)	-	-
Accounts receivable balance	(443,807)	-	-
Fair value of accounts receivable written down	(516,579)	-	-
Accounts receivable written-off	(1,730,631)	-	-
Total	60,455,858	-	-

For the analysis of the amounts shown in the above table from inception to the year ended December 31, 2018 and year ended December 31, 2019, please refer to the MD&A for the three months and year ended December 31, 2019 dated February 13, 2020.