



**NOVA ROYALTY CORP.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Unaudited - Expressed in Canadian Dollars)**

**FOR THE THREE MONTHS ENDED MARCH 31, 2022**



**NOVA ROYALTY CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**

(Unaudited - Expressed in Canadian Dollars)

	Three months ended March 31 2022	Three months ended March 31 2021
Revenue from royalty interests	\$ 673,519	\$ 2,073
Depletion on royalty interests (Note 4)	(260,580)	-
<b>Gross profit</b>	<b>412,939</b>	<b>2,073</b>
<b>General and administrative expenses</b>		
Consulting fees (Note 9)	541,460	370,123
Office and administrative expenses	183,361	75,740
Professional fees (Note 9)	101,228	124,437
Share-based payments (Note 8 and 9)	1,137,270	295,434
Transfer agent and filing fees	4,279	70,383
	<b>1,967,598</b>	<b>936,117</b>
<b>Loss from operations</b>	<b>(1,554,659)</b>	<b>(934,044)</b>
Interest and accretion on convertible debenture (Note 7)	(227,376)	(212,795)
Other expenses	(104)	(13,278)
Foreign exchange gain (loss)	22,395	(9,147)
<b>Loss before income taxes</b>	<b>(1,759,744)</b>	<b>(1,169,264)</b>
Deferred income tax recovery	12,222	19,371
<b>Loss and comprehensive loss</b>	<b>\$ (1,747,522)</b>	<b>\$ (1,149,893)</b>
Basic and diluted loss per share	\$ (0.02)	\$ (0.02)
Weighted average number of shares outstanding - basic and diluted	84,715,351	68,211,037

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOVA ROYALTY CORP.****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited - Expressed in Canadian Dollars)

	Three months ended March 31 2022	Three months ended March 31 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (1,747,522)	\$ (1,149,893)
Items not affecting cash:		
Depletion	260,580	-
Share-based payments	1,137,270	295,434
Interest and accretion on convertible debenture	227,376	159,535
Unrealized foreign exchange effect	(1,674)	1,415
Deferred income tax recovery	(12,222)	(19,371)
Changes in non-cash operating working capital items		
Receivables	262,100	(27,641)
Prepaid expenses	(264,270)	(122,401)
Accounts payable and accrued liabilities	(626,903)	(350,948)
<b>Net cash used in operating activities</b>	<b>(765,265)</b>	<b>(1,213,870)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of royalty interests	(1,364,849)	(13,323,227)
Deferred acquisition costs	(86,348)	-
<b>Net cash used in investing activities</b>	<b>(1,451,197)</b>	<b>(13,323,227)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued	526,839	824,897
Share issue costs	(58,619)	(41,018)
Convertible debenture	1,500,000	5,000,000
Financing costs for convertible debenture	(8,164)	(296,061)
Standby charges paid	-	(8,255)
Exercise of stock options and share purchase warrants	20,499	6,294,856
<b>Net cash provided by financing activities</b>	<b>1,980,555</b>	<b>11,774,419</b>
Effect of exchange rate changes on cash	(9,908)	863
<b>Change in cash</b>	<b>(245,815)</b>	<b>(2,761,815)</b>
<b>Cash, beginning of period</b>	<b>962,745</b>	<b>5,400,687</b>
<b>Cash, end of period</b>	<b>\$ 716,930</b>	<b>\$ 2,638,872</b>

**Supplemental disclosure with respect to cash flows** (Note 10)

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

**NOVA ROYALTY CORP.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(Unaudited - Expressed in Canadian Dollars)

	Number of shares	Share capital	Commitment to issue shares	Reserves	Deficit	Total equity
<b>Balance as at December 31, 2020</b>	57,984,249	\$ 31,134,746	\$ 28,572	\$ 1,327,472	\$ (4,426,508)	\$ 28,064,282
Shares issued for cash	198,000	824,897	-	-	-	824,897
Shares issued for royalty interests	4,648,813	22,479,607	163,179	-	-	22,642,786
Share issue costs	-	(41,018)	-	-	-	(41,018)
Exercise of stock options	312,500	136,636	-	(58,511)	-	78,125
Share purchase warrants exercised	8,580,130	6,580,276	-	(363,545)	-	6,216,731
Convertible debenture converted	3,535,691	3,323,768	-	(151,947)	-	3,171,821
Convertible debenture - equity component	-	-	-	191,560	-	191,560
Share-based payments	-	-	-	295,434	-	295,434
Loss for the period	-	-	-	-	(1,149,893)	(1,149,893)
<b>Balance as at March 31, 2021</b>	<b>75,259,383</b>	<b>\$ 64,438,912</b>	<b>\$ 191,751</b>	<b>\$ 1,240,463</b>	<b>\$ (5,576,401)</b>	<b>\$ 60,294,725</b>

	Number of shares	Share capital	Commitment to issue shares	Reserves	Deficit	Total equity
<b>Balance as at December 31, 2021</b>	84,391,594	\$ 88,859,743	\$ 28,572	\$ 3,389,105	\$ (13,850,772)	\$ 78,426,648
Shares issued for cash	154,600	526,839	-	-	-	526,839
Shares issued for royalty interests	214,610	667,437	-	-	-	667,437
Share issue costs	-	(58,619)	-	-	-	(58,619)
Share purchase warrants exercised	40,998	31,317	-	(10,818)	-	20,499
Convertible debenture - equity component	-	-	-	51,368	-	51,368
Share-based payments - RSUs vested	-	-	-	292,004	-	292,004
Share-based payments - Options vested	-	-	-	845,266	-	845,266
RSUs settled	113,900	541,025	-	(541,025)	-	-
Loss for the period	-	-	-	-	(1,747,522)	(1,747,522)
<b>Balance as at March 31, 2022</b>	<b>84,915,702</b>	<b>\$ 90,567,742</b>	<b>\$ 28,572</b>	<b>\$ 4,025,900</b>	<b>\$ (15,598,294)</b>	<b>\$ 79,023,920</b>

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

## **NOVA ROYALTY CORP.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

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#### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Nova Royalty Corp. (the "Company") is a royalty company focused on nickel and copper deposits. The Company was incorporated pursuant to the provisions of the British Columbia Business Corporations Act on July 20, 2018 and changed its name to Nova Royalty Corp. on June 9, 2020. The Company's head office, registered, and records office address is 501 - 543 Granville Street, Vancouver, British Columbia, Canada. The Company's common shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "NOVR" and on the OTCQB Venture Market ("OTCQB") under the symbol "NOVRF."

These condensed consolidated interim financial statements are prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from the carrying values shown and these condensed consolidated interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. The Company's continuing operations and the ability of the Company to meet commitments are dependent upon the ability of the Company to continue to raise additional equity or debt financing, or the realization of cash generating royalty interests. At the date of these financial statements, the Company has not achieved profitable operations and has accumulated losses since inception. Management estimates it has sufficient cash and available credit to continue operations over the next 12 months.

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or ability to raise funds.

#### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of preparation and measurement**

These unaudited condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"). These unaudited condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Accordingly, certain disclosures included in the annual financial statements prepared in accordance with IFRS have been condensed or omitted. These unaudited condensed consolidated interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2021.

The accounting policies applied in the preparation of these unaudited condensed consolidated interim financial statements are consistent with those applied and disclosed in the Company's audited financial statements for the year ended December 31, 2021. The Company's interim results are not necessarily indicative of its results for a full year.

##### **Basis of Consolidation**

The consolidated financial statements comprise the accounts of Nova Royalty Corp., the parent company, and its controlled subsidiary, after the elimination of all significant intercompany balances and transactions.

##### *Subsidiaries*

Subsidiaries are all entities over which the Company has exposure to variable returns from its involvement and has the ability to use power over the investee to affect its returns. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated. The Company's principal and only wholly owned subsidiary is Nova Royalty USA Corp., incorporated in the state of Delaware, USA.

##### **Reclassification**

Certain comparative figures have been reclassified to conform to the current period presentation.

**NOVA ROYALTY CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

**3. RECEIVABLES**

	March 31 2022	December 31 2021
Royalty receivable	\$ 663,715	\$ 961,885
GST/VAT and other taxes recoverable	65,091	36,745
Other receivables	1,938	1,938
	<b>\$ 730,744</b>	<b>\$ 1,000,568</b>

The Company's receivables arise from royalty revenue receivable, goods and services tax receivable from government taxation authorities and amounts due from a joint operating partner.

**4. ROYALTY INTERESTS**

	December 31 2021	Additions	Depletion	March 31 2022	Historical Cost	Accumulated Depletion
Taca Taca	\$ 44,041,003	\$ 4,648	\$ -	\$ 44,045,651	<b>\$ 44,045,651</b>	\$ -
Vizcachitas	12,851,393	-	-	12,851,393	<b>12,851,393</b>	-
West Wall	5,313,588	-	-	5,313,588	<b>5,313,588</b>	-
NuevaUnión	4,349,688	-	-	4,349,688	<b>4,349,688</b>	-
Dumont	3,359,490	-	-	3,359,490	<b>3,359,490</b>	-
Aranzazu	11,448,754	2,599	(260,580)	11,190,773	<b>11,847,182</b>	<b>(656,409)</b>
Copper World/Rosemont	-	3,460,548	-	3,460,548	<b>3,460,548</b>	-
Other <sup>1</sup>	1,983,350	-	-	1,983,350	<b>1,983,350</b>	-
	<b>\$ 83,347,266</b>	<b>\$ 3,467,795</b>	<b>\$ (260,580)</b>	<b>\$ 86,554,481</b>	<b>\$ 87,210,890</b>	<b>\$ (656,409)</b>

<sup>(1)</sup> Other consists of the Pacific Empire, Wollaston Copper Belt, and Twin Metals royalty interests.

**Copper World & Rosemont royalty**

In January 2022, the Company acquired a 0.135% net smelter return ("NSR") royalty on the Copper World and Rosemont copper projects in Arizona, USA, owned by Hudbay Minerals Inc. ("HudBay"; TSX: HBM; NYSE: HBM). The total acquisition price of US\$5,463,236, is payable as follows:

- a) US\$992,647 (\$1,261,853) of cash on closing (paid);
- b) US\$500,000 in common shares on closing (issued 214,610 common shares of the Company with a fair market value of \$667,437);
- c) US\$992,647 in cash due on or before the earlier of: (i) January 26, 2023 and (ii) 30 days after the Company completes a single equity financing resulting in aggregate net proceeds of at least US\$10,000,000; and
- d) US\$2,977,942 in cash due 30 days following the later of 12 months after the announcement of full-scale production and the receipt of the first three royalty payments under the agreement.

The Company will retain a right-of-first refusal ("ROFR") in respect to an additional 0.540% NSR owned by the sellers of the royalty, covering the same area of the originally purchased NSR.

**Aranzazu royalty**

In August 2021, the Company acquired a 1.0% NSR royalty on the Aranzazu producing copper-gold-silver mine (the "Aranzazu Royalty" or "Aranzazu") owned by Aura Minerals Inc. ("Aura"; TSX: ORA). Consideration of \$10,104,560 (US\$8,000,000) cash and 388,093 common shares of the Company with a fair market value of \$1,206,970 was paid on closing of the acquisition.

The Company is entitled to 1.0% of the NSR royalty on all products sold at Aranzazu, less certain allowable deductions, provided that the monthly average price per pound of copper, as quoted by the London Metals Exchange, equals or exceeds US\$2.00 per pound.

As part of the acquisition, the Company paid cash finder's fees of \$73,776 and non-cash finders fees through the issuance of 35,218 common shares, valued at \$101,428.

## **NOVA ROYALTY CORP.**

### **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

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#### **4. ROYALTY INTERESTS (cont'd...)**

##### **West Wall royalty**

In June 2021, the Company acquired rights to a 1.0% net proceeds royalty ("NPR") from Sociedad Minera Auromín Limitada ("Auromín") on the West Wall copper-gold-molybdenum project located in the central Chilean Andes. The project is a joint venture owned 50/50 by Anglo American PLC ("Anglo American"; GBX:AAL) and Glencore PLC ("Glencore"; LSE:GLEN). Cash consideration of US\$4,200,000 (\$5,105,436) was paid on closing of the acquisition.

Under the terms of the agreement, the Company also has rights to receive a 1.0% interest in other mining tenements established as designated areas in the surrounding region under certain terms and conditions.

As part of the acquisition, the Company agreed to pay a 2% finder's fee through the issuance of 30,748 common shares, valued at \$103,621.

##### **Taca Taca royalty**

In November 2020, the Company acquired a 0.24% NSR royalty on the Taca Taca copper-gold-molybdenum project in Salta Province of Argentina ("Taca Taca") from certain private sellers for up-front consideration of US\$8,500,000 (\$11,070,230) and 2,000,000 common shares of the Company, valued at \$3,200,000, with additional payments of US\$500,000 six months after closing (\$608,045 paid), US\$1,000,000 twelve months after closing (\$1,239,478 paid), and US\$500,000 in November, 2022. As part of the acquisition, the Company paid a 2% finder's fee through the issuance of 212,702 common shares valued at \$340,323. The royalty is subject to a buyback right based on the proven reserves at Taca Taca in a feasibility study completed by a recognized, international consulting firm that is contracted by mutual consent of all parties, including royalty holders. The buyback amount will be equivalent to the amount of the proven reserves multiplied by the prevailing market prices of all applicable commodities within Taca Taca.

In February 2021, the Company acquired a further 0.18% NSR on the Taca Taca project, increasing the total NSR royalty to 0.42%. The acquisition price was US\$3,000,000 (\$3,809,400) in cash and 4,545,454 common shares of the Company, valued at \$21,954,543, both paid on closing of the agreement. A further US\$4,000,000 is due within 10 days after the date of the commencement of commercial production on the Taca Taca project. As part of the acquisition, the Company paid a 2% finder's fee through the issuance of 103,359 common shares valued at \$525,064.

##### **Vizcachitas royalty**

In February 2021, the Company completed the acquisition of a 0.98% NSR royalty on open pit operations and 0.49% on underground operations on the San Jose exploitation concession forming part of the Vizcachitas Project in Chile, which is owned by Los Andes Copper Ltd. ("LAC"; TSXV:LA). The acquisition price was US\$6,500,000 (\$8,264,373) in cash paid on closing and a further US\$9,500,000 payable in common shares of the Company upon achievement of certain project milestones, which include:

- a) US\$1,750,000 upon issuance of a valid Resolución de Calificación Ambiental ("RCA"), an environmental permit that allows drilling activities regarding the Vizcachitas Project (paid through the issuance of 535,179 common shares valued at \$1,948,052);
- b) US\$1,750,000 upon issuance of the other permits required by the RCA to commence the execution of drilling on the Vizcachitas Project (paid through the issuance of 703,415 common shares valued at \$2,236,860);
- c) US\$1,500,000 upon the disclosure of a pre-feasibility study prepared in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects with respect to the Vizcachitas Project which includes the Concession; and
- d) US\$4,500,000 upon the first to occur of: (i) LAC or its successors or assign makes a fully-financed construction decision on the Vizcachitas Project (or any part thereof that includes the concession); (ii) LAC or its successor or assign enters into an earn-in transaction with respect to the Vizcachitas Project (or any part thereof that includes the concession) or for LAC itself, with a third party, for a minimum interest of 51%; or (iii) LAC or its successor or assign sells the Vizcachitas Project (or any part thereof that includes the Concession) or LAC to an arms' length third party.

As part of the acquisition, the Company paid a 1% finder's fee through the issuance of 40,291 common shares, valued at \$163,179.



**NOVA ROYALTY CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

**4. ROYALTY INTERESTS (cont'd...)****NuevaUnión royalty**

In February 2020, the Company acquired an existing 2.0% NSR royalty on future copper production on the Cantarito claim which makes up part of the La Fortuna deposit in the Huasco Province in the Atacama region of Chile. The acquisition was completed as a joint venture with Metalla Royalty & Streaming Ltd. ("Metalla"; TSXV:MTA) with the companies having formed a special purpose vehicle to hold the Cantarito royalty. The aggregate consideration of US\$8,000,000 is split between the Company and Metalla, where the Company has agreed to pay 75% or US\$6,000,000. On closing, the Company paid US\$2,250,000 (\$2,992,635) in cash. In February 2021, the Company paid US\$750,000 (\$952,867) in cash. The Company has agreed to pay a further US\$1,500,000 in cash and US\$1,500,000 in common shares upon the achievement of commercial production at the La Fortuna deposit. As part of the acquisition, the Company paid a finder's fee through the issuance of 425,280 common shares valued at \$212,640.

**Dumont royalty**

In January 2019, the Company acquired a 2.0% NSR on a portion of the Dumont nickel-cobalt project located in Quebec, which was previously held by Karora Resources Inc. ("Karora"). In January 2021, Karora sold its interest to Waterton Global Resource Investments, who has the option to buy back one half of the NSR royalty for \$1,000,000.

**5. DEFERRED ACQUISITION COSTS**

	March 31 2022	December 31 2021
Opening balance	\$ 291,538	\$ 75,658
Additions	138,891	397,096
Reallocation for completed acquisitions	(137,800)	(181,216)
	<b>\$ 292,629</b>	<b>\$ 291,538</b>

Costs incurred or accrued prior to the execution and closing of a royalty agreement are deferred. Deferred costs are reallocated to royalty interests upon signing of a definitive agreement. If management determines not to proceed with a proposed acquisition, the deferred costs are expensed at that time.

**6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	March 31 2022	December 31 2021
Trade and other payables	\$ 246,687	\$ 639,070
Payables on Taca Taca acquisition (Note 12)	624,800	633,900
Payables on Copperworld & Rosemont acquisition (Note 12)	1,240,412	-
Accrued liabilities	1,156,078	1,220,997
	<b>\$ 3,267,977</b>	<b>\$ 2,493,967</b>

**NOVA ROYALTY CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

**7. CONVERTIBLE DEBENTURE**

	March 31 2022	December 31 2021
Opening balance	\$ 4,898,593	\$ 3,026,912
Additions	1,500,000	5,000,000
Transaction costs	(7,816)	(279,838)
Allocation of conversion feature	(63,938)	(273,961)
Accretion and interest	157,409	550,493
Conversion to common shares	-	(3,125,013)
	\$ 6,484,248	\$ 4,898,593

In October 2020, the Company obtained a convertible loan facility of up to \$13,000,000 with Beedie Capital ("Beedie") to fund acquisitions of royalties and streams. The loan was funded by way of an initial advance of \$3,500,000 at closing, and the remaining \$9,500,000 available for subsequent advances in minimum tranches of \$1,500,000 over the term of the loan. The initial advance was convertible into common shares of the Company at a conversion price of \$1.00 per share and with respect to any subsequent advance, at a conversion price equal to a 20% premium above the 30-day volume-weighted average price ("VWAP") of the Company's common shares on the TSX-V. The loan carried an interest rate of 8.0% on advanced funds and 1.5% on standby funds available, with the principal payment due 48 months after closing. The Company had the option under the loan to defer any interest payments during the first 24 months. Beedie also committed to a subscription of \$2,000,000 in the Company's first public offering that subsequently closed in November 2020. In October 2020, the Company drew down the initial advance of \$3,500,000, of which \$2,936,314 was allocated as a financial liability and the residual value of \$198,755 was allocated to the conversion feature as equity, net of transaction costs. A deferred tax liability of \$46,808 related to the taxable temporary difference arising from the equity portion of the convertible loan was recognized in equity reserves. The effective interest rate on the liability was 13.2% per annum, with an expected life of 4.00 years. In February 2021, all outstanding principal and accrued interest related to the initial advance was converted into 3,535,691 common shares of the Company. The Company also recorded a deferred income tax expense of \$46,808 with an offset to equity reserves to unwind a portion of the deferred taxes that were recognized in October 2020 upon issuance of the initial advance.

In February 2021, an advance of \$5,000,000 was drawn on the facility. This second advance is convertible into common shares of the Company at a conversion price of \$5.67 per common share, accrues interest at 8.00% per annum and matures on October 7, 2024. On initial recognition of the second advance, \$4,726,039 was allocated as a financial liability and the residual value of \$273,961 was allocated to the conversion feature as equity. A deferred tax liability of \$66,179 related to the taxable temporary difference arising from the equity portion of the convertible loan has been recognized in equity reserves. Transaction costs of \$279,839 and \$16,222 were allocated to the financial liability and equity portions of the convertible debt respectively. The effective interest rate on the liability is 11.8% per annum, with an original expected life of 3.62 years. The Company has incurred \$132,568 (2021 - \$53,260) of interest expense on the second advance for the three months ended March 31, 2022.

In February 2021, the Company entered into an amended and restated convertible loan agreement with Beedie in which the total funds available under the facility increased to \$20,000,000. As at March 31, 2022, undrawn funds available under the convertible loan facility were \$18,500,000 (December 31, 2021 - \$20,000,000). Under the amended and restated convertible loan agreement, the Company is required to maintain a cash balance of at least \$500,000 at all times. During the three months ended March 31, 2022 and as at March 31, 2022 the Company was in compliance with this financial covenant.

In January 2022, an advance of \$1,500,000 was drawn on the facility. This third advance is convertible into common shares of the Company at a conversion price of \$3.51 per common share, accrues interest at 8.00% per annum and matures on October 7, 2024. On initial recognition of the third advance, \$1,436,062 was allocated as a financial liability and the residual value of \$63,938 was allocated to the conversion feature as equity. A deferred tax liability of \$16,143 related to the taxable temporary difference arising from the equity portion of the convertible loan has been recognized in equity reserves. Transaction costs of \$7,816 and \$348 were allocated to the financial liability and equity portions of the convertible debt respectively. The effective interest rate on the liability is 9.9% per annum, with an original expected life of 2.70 years. The Company has incurred \$24,842 (2021 - \$Nil) of interest expense on the third advance for the three months ended March 31, 2022.

During the three months ended March 31, 2022, the Company recorded standby charges of \$69,966 (2021 - \$61,515) included in interest and accretion on convertible debenture, of which \$Nil (2021 - \$8,255) was paid and \$382,828 (December 31, 2021 - \$312,862) was included in accrued liabilities as at March 31, 2022.

**NOVA ROYALTY CORP.****NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE MONTHS ENDED MARCH 31, 2022

**8. SHARE CAPITAL**

As at March 31, 2022, the authorized share capital consists of an unlimited number of common shares without par value, of which 830,625 (December 31, 2021 - 1,393,125) common shares were held in escrow to be released over time to April 2022.

In February 2021, the Company established an at-the-market ("ATM") equity program to distribute up to \$25,000,000 of common shares of the Company under the ATM equity program. The common shares will be issued by the Company to the public from time to time, through the agents, at the Company's discretion.

**Issued share capital**

During the three months ended March 31, 2022, the Company:

- a) issued 154,600 common shares pursuant to its ATM equity program for gross proceeds of \$526,839 with aggregate share issue costs paid and/or accrued of \$58,621;
- b) issued 214,610 common shares, valued at \$667,437, pursuant to the acquisition of royalty interest;
- c) issued 40,998 common shares for proceeds of \$20,499 on the exercise of share purchase warrants; and
- d) issued 113,900 common shares pursuant to the settlement of 113,900 restricted share units ("RSUs").

During the three months ended March 31, 2021, the Company:

- a) issued 198,000 common shares in the ATM equity program for gross proceeds of \$824,897, with aggregate share issue costs paid and/or accrued of \$41,018;
- b) issued 4,648,813 common shares, valued at \$22,479,607, pursuant to the acquisition of royalty interests and accrued associated non-cash finder's fees of \$163,179 as a commitment to issue shares;
- c) issued 3,535,691 common shares through the conversion of a convertible debenture;
- d) issued 312,500 common shares for proceeds of \$78,125 on the exercise of 312,500 stock options; and
- e) issued 8,580,130 common shares for proceeds of \$6,216,731 on the exercise of 8,580,130 share purchase warrants.

**Stock options**

The Company has adopted a stock option plan approved by the Company's shareholders. The maximum number of shares that may be reserved for issuance under the plan is limited to 10% of the issued common shares of the Company at any time, less the amount reserved for RSUs. The vesting terms, if any, are determined by the Company's Board of Directors at the time of the grant.

There were no changes to the number of stock options outstanding for the three months ended March 31, 2022. The weighted average remaining useful life of stock options outstanding is 3.64 (December 31, 2021 - 3.89) years. The Company's outstanding and exercisable stock options as at March 31, 2022 are as follows:

Expiry date	Exercise price	Outstanding	Exercisable
March 1, 2024	\$ 0.25	1,225,000	1,225,000
March 1, 2026	\$ 4.75	325,000	108,333
August 27, 2026	\$ 3.30	2,630,000	-
		4,180,000	1,333,333

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FOR THE THREE MONTHS ENDED MARCH 31, 2022

**8. SHARE CAPITAL (cont'd...)****Restricted share units**

The continuity of RSUs for the three months ended March 31, 2022 is as follows:

	Outstanding
As at December 31, 2021	1,305,000
Settled	(113,900)
As at March 31, 2022	1,191,100

As at March 31, 2022, the weighted average remaining life of the RSUs outstanding was 0.50 (December 31, 2021 - 0.89) years with vesting periods of up to 36 months. The Company's outstanding RSUs as at March 31, 2022 are as follows:

Expiry date	Outstanding	Unvested
Apr 27, 2022	900,000	900,000
Mar 01, 2024	291,100	267,300
	1,191,100	1,167,300

**Share purchase warrants**

The continuity of share purchase warrants for the three months ended March 31, 2022 is as follows:

	Outstanding	Weighted average exercise price
As at December 31, 2021	40,998	\$ 0.50
Exercised	(40,998)	0.50
As at March 31, 2022	-	\$ -

**Share-based payments and share-based payment reserve**

During the three months ended March 31, 2022, the Company granted Nil (2021 - 325,000) stock options with a weighted average fair value of \$Nil (2021 - \$3.53) per option. The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	Three months ended March 31 2022	Three months ended March 31 2021
Weighted average:		
Risk free interest rate	n/a	0.90%
Expected dividend yield	n/a	0%
Expected stock price volatility	n/a	100%
Expected life in years	n/a	5
Forfeiture rate	n/a	0%

During the three months ended March 31, 2022, the Company recorded share-based payment expense of \$1,137,270 (2021 - \$295,434), of which \$292,004 (2021 - \$73,068) represents the fair value of options vested during the period with the offsetting amounts credited to reserves, and \$845,266 (2021 - \$222,366) represents the fair value of RSUs vested during the period.

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**9. RELATED PARTY BALANCES AND TRANSACTIONS**

The Company considers key management personnel to include its management, outside directors, and any entity controlled by them. The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

Three months ended March 31, 2022	Salary or consulting fees	Share-based payments	Total
Management	\$ 19,202	\$ 191,366	\$ 210,568
Directors	60,856	515,185	576,041
	\$ 80,058	\$ 706,551	\$ 786,609

  

Three months ended March 31, 2021	Salary or consulting fees	Share-based payments	Total
Management	\$ 38,610	\$ 72,233	\$ 110,843
Directors	40,750	123,614	164,364
	\$ 79,360	\$ 195,847	\$ 275,207

During the three months ended March 31, 2022, the Company paid or accrued \$45,000 (2021 - \$45,000) to Seabord Services Corp. ("Seabord"). Seabord provides the following services: A Chief Financial Officer ("CFO"), a Corporate Secretary, accounting and administration staff, and office space to the Company. The CFO and Corporate Secretary are employees of Seabord and are not paid directly by the Company.

During the three months ended March 31, 2021, the Company paid or accrued professional fees of \$345,127 to DLA Piper (Canada) LLP ("DLA Piper"), a law firm in which a former director is a partner of. The partner became a former related party of the Company on November 18, 2021.

As at March 31, 2022, included in accounts payable and accrued liabilities is \$332,665 (December 31, 2021 - \$489,997) to key management personnel for fees and reimbursable expenses, and \$Nil (December 31, 2021 - \$Nil) to Seabord. In addition, as at March 31, 2022, the Company has a commitment to issue 57,144 (December 31, 2021 - 57,144) common shares, valued at \$28,572 (December 31, 2021 - \$28,572), to Seabord for services rendered during 2020 before the public listing was completed.

**10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS****Significant non-cash investing and financing activities**

During the three months ended March 31, 2022, the Company:

- issued 214,610 common shares, valued at \$667,437, pursuant to royalty interest acquisition agreements;
- accrued \$1,350,252 in accounts payable and accrued liabilities pursuant to royalty interest acquisition agreements and due diligence costs;
- reallocated \$137,800 of deferred acquisition costs to royalty interests on completion of the Rosemont/Copper World royalty interest acquisition;
- reallocated \$63,938 to reserves for the conversion feature of the January 2022 advance (Note 7) on the convertible debenture, of which \$16,143 was recognized as a deferred income tax recovery for the temporary difference related to the conversion feature;
- reallocated \$10,818 from reserves to share capital for 40,998 share purchase warrants exercised; and
- reallocated \$541,025 from reserves to share capital on the vesting of 113,900 RSUs.

During the three months ended March 31, 2021, the Company:

- issued 4,648,813 common shares, valued at \$22,479,607, pursuant to royalty interest acquisition agreement;
- recognized a commitment to issue 40,291 common shares, valued at \$163,179, pursuant to a finder's fee on royalty interest acquisition;
- reallocated \$75,658 of deferred acquisition costs to royalty interest on completion of the Vizcachitas and Taca Taca royalty interest acquisitions;
- reallocated \$191,560 to reserves for the conversion feature of the subsequent advance on the convertible debenture;
- issued 3,535,691 common shares, valued at \$3,323,768, pursuant to the conversion of convertible debenture;
- reallocated \$58,511 from reserves to share capital for 312,500 stock options exercised; and
- reallocated \$363,545 from reserves to share capital for 8,580,130 share purchase warrants exercised.

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**11. FINANCIAL INSTRUMENTS**

The Company classified its financial instruments as follows:

	March 31 2022	December 31 2021
Financial assets - amortized cost:		
Cash	\$ 716,930	\$ 962,745
Royalty receivable	663,715	961,885
Other receivables	1,938	1,938
Financial liabilities - amortized cost:		
Accounts payable and accrued liabilities	3,267,977	2,493,967
Convertible debenture	\$ 6,484,248	\$ 4,898,593

Financial instruments recorded at fair value on the statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels: (a) Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities; (b) Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and (c) Level 3 - Inputs for assets and liabilities that are not based on observable market data. The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The carrying value of cash, receivables, accounts payable and accrued liabilities, and other payables approximates their fair value due to the short-term nature of these instruments. The fair values of the Company's convertible debentures approximate their carrying values as contractual interest rates are comparable to current interest rates.

The Company's activities expose it to financial risks of varying degrees of significance, which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are metal price risk, credit risk, liquidity risk, currency risk, and interest rate risk. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and reviews the Company's policies on an ongoing basis.

**Capital risk management**

Capital is comprised of the Company's shareholders' equity. The Company's objectives when managing capital are to maintain financial strength and to protect its ability to meet its ongoing liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. Protecting the ability to pay current and future liabilities includes maintaining capital above minimum regulatory levels, current financial strength rating requirements and internally determined capital guidelines and calculated risk management levels. The Company is subject to an externally imposed financial capital covenant as disclosed in Note 7.

**Credit risk**

Credit risk is the risk of loss arising from a customer or third party to a financial instrument failing to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash and receivables. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company's exposure with respect to its receivables is primarily related to royalty revenue receivable.

**Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company attempts to ensure there is sufficient capital to meet short-term business requirements, after taking into account cash flows from operations and the Company's holdings of cash as well as anticipated proceeds from future financings. The Company believes that these sources are sufficient to cover the short-term cash requirements, but that further funding will be required to meet long-term requirements. The maturities of the Company's non-current liabilities are disclosed in Notes 6, 7 and 12. All current liabilities are settled within one year.

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**11. FINANCIAL INSTRUMENTS (cont'd...)****Currency risk**

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company primarily operates in Canada and the United States and incurs expenditures in currencies other than Canadian dollars. Thereby, the Company is exposed to foreign exchange risk arising from currency exposure. The Company has not hedged its exposure to currency fluctuations. Based on the above net exposure, as at March 31, 2022, and assuming that all other variables remain constant, a 1% depreciation or appreciation of the Canadian dollar against the United States dollar would result in an increase/decrease in the Company's pre-tax income or loss of approximately \$5,000.

**12. COMMITMENTS**

As at March 31, 2022, the Company had commitments payable as follows:

	Less than 1 year	1 to 4 years	Over 4 years	Total
Trade and other payables	\$ 246,687	-	-	\$ 246,687
Accrued liabilities	1,156,078	-	-	1,156,078
Payments related to acquisitions	1,865,212	-	-	1,865,212
Convertible debenture (including interest)	981,589	7,286,517	-	8,268,106
	\$ 4,249,566	\$ 7,286,517	\$ -	\$ 11,536,083

In addition to the commitments above, the Company could in the future have additional commitments payable in cash and/or common shares related to the acquisition of royalty interests as disclosed in Note 4. However, these payments are subject to certain triggers or milestone conditions that have not occurred as at March 31, 2022.

**13. EVENTS AFTER REPORTING DATE**

Subsequent to March 31, 2022, the Company:

- a) entered into a purchase agreement pursuant to which the Company has secured the right to acquire a portion of an existing royalty (the "Royalty") on the Josemaria copper-gold-silver project in San Juan, Argentina, owned by Lundin Mining Corporation (TSX:LUN, Nasdaq Stockholm:LUMI) (the "Transaction"). The Royalty includes as 0.5% net profit interest ("NPI") that covers the area of the mineral reserve estimate for Josemaria and is payable for a period of 10 years, plus an additional US\$2,000,000 payment six months following two full years of production. The portion of the Royalty that will be acquired by the Company (the "Royalty Portion") is subject to the finalization of an estate partitioning process in Argentina. The Transaction is not expected to close until the conclusion of this process, which may require more than 12 months. However, through the Agreement, the Company has secured rights to future ownership of the Royalty Portion at a predetermined price. The Agreement specifies a total purchase price of US\$13,712,000 for 100% of the Royalty (the "Total Royalty Price"), payable at the achievement of future milestones, plus advanced payment of US\$100,000.

The consideration payable to the sellers by the Company (the "Transaction Consideration") will be calculated by adjusting the Total Royalty Price for the Royalty Portion on a pro rata basis. The Company expects to acquire approximately 16.7% of the Royalty (representing a 0.08325% NPI) for total aggregate Transaction Consideration of approximately US\$2,400,000, with a right of first refusal ("ROFR") over an additional 16.7% of the Royalty. The total payments in connection with the Transaction are as follows:

- i. Advanced payments totaling US\$100,000;
- ii. 50% of the Transaction Consideration, payable in cash 30 business days following the receipt of notice that the Company has been recorded as sole titleholder of the Royalty Portion with the relevant mining authority;

**NOVA ROYALTY CORP.**

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FOR THE THREE MONTHS ENDED MARCH 31, 2022

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**13. EVENTS AFTER REPORTING DATE** (cont'd...)

- iii. 25% of the Transaction Consideration, payable in cash 30 business days following commencement of construction at Josemaria, provided, however, that the estate partitioning has first been finalized; and
  - iv. 25% of the Transaction Consideration, payable in cash 30 business days following the 12-month anniversary of commercial production at Josemaria, provided, however, that the estate partitioning has first been finalized.
- b) completed a drawdown of an additional \$1,500,000 under the Company's existing amended and restated convertible loan facility with Beedie (Note 7). The drawdown is convertible by Beedie into common shares of the Company at a conversion price of \$2.74 per common share, accrues interest at 8.00% per annum and matures on October 7, 2024; and
- c) issued 256,666 common shares pursuant to the settlement 256,666 RSUs.