



**NOVA ROYALTY CORP.**

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

**FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022**

**NOVA ROYALTY CORP.**

## CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(Unaudited - Expressed in Canadian Dollars)

	September 30 2022	December 31 2021
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 1,365,174	\$ 962,745
Receivables (Note 3)	397,566	1,000,568
Prepaid expenses	226,632	217,091
Deferred acquisition costs (Note 5)	199,808	-
<b>Total current assets</b>	<b>2,189,180</b>	<b>2,180,404</b>
<b>Non-current assets</b>		
Royalty interests (Note 4)	86,322,986	83,347,266
Deferred acquisition costs (Note 5)	-	291,538
<b>Total non-current assets</b>	<b>86,322,986</b>	<b>83,638,804</b>
<b>TOTAL ASSETS</b>	<b>\$ 88,512,166</b>	<b>\$ 85,819,208</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (Note 6, 9)	\$ 3,583,648	\$ 2,493,967
<b>Total current liabilities</b>	<b>3,583,648</b>	<b>2,493,967</b>
<b>Non-current liabilities</b>		
Convertible debenture (Note 7)	8,310,006	4,898,593
<b>Total non-current liabilities</b>	<b>8,310,006</b>	<b>4,898,593</b>
<b>Total liabilities</b>	<b>11,893,654</b>	<b>7,392,560</b>
<b>EQUITY</b>		
Share capital (Note 8)	90,766,537	88,859,743
Commitment to issue shares (Note 9)	28,572	28,572
Reserves	5,692,650	3,389,105
Deficit	(19,869,247)	(13,850,772)
<b>Total equity</b>	<b>76,618,512</b>	<b>78,426,648</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 88,512,166</b>	<b>\$ 85,819,208</b>

**Nature of operations and going concern** (Note 1)**Commitments** (Notes 4 and 12)**Events after reporting date** (Notes 8 and 13)

These condensed consolidated interim financial statements were authorized for issuance by the Board of Directors on November 16, 2022.

**Approved by the Board of Directors**

\_\_\_\_\_  
"Alex Tsukernik" Director

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"Guy Elliott" Director

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

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

(Unaudited - Expressed in Canadian Dollars)

	Three months ended September 30 2022	Three months ended September 30 2021	Nine months ended September 30 2022	Nine months ended September 30 2021
Revenue from royalty interests	\$ 344,155	\$ 181,900	\$ 1,488,461	\$ 185,968
Depletion on royalty interests (Note 4)	(330,010)	(101,724)	(833,674)	(101,724)
<b>Gross profit</b>	<b>14,145</b>	<b>80,176</b>	<b>654,787</b>	<b>84,244</b>
<b>General and administrative expenses</b>				
Consulting fees (Note 9)	512,472	433,100	1,512,964	1,124,793
Office and administrative expenses	373,331	124,812	849,930	309,796
Professional fees	124,857	117,712	357,325	418,928
Share-based payments (Note 8, 9)	935,954	796,766	3,013,425	1,639,335
Transfer agent and filing fees	20,092	18,598	113,671	168,987
	<b>1,966,706</b>	<b>1,490,988</b>	<b>5,847,315</b>	<b>3,661,839</b>
<b>Loss from operations</b>	<b>(1,952,561)</b>	<b>(1,410,812)</b>	<b>(5,192,528)</b>	<b>(3,577,595)</b>
Interest and accretion on convertible debenture (Note 7)	(275,405)	(209,155)	(757,012)	(627,908)
Other expenses	(34)	(1,754)	(170)	(18,357)
Foreign exchange (loss) gain	(79,494)	(51,616)	(82,165)	31,348
<b>Loss before income taxes</b>	<b>(2,307,494)</b>	<b>(1,673,337)</b>	<b>(6,031,875)</b>	<b>(4,192,512)</b>
Deferred income tax (expense) recovery	(7,229)	(3,634)	13,400	12,428
<b>Loss and comprehensive loss</b>	<b>\$ (2,314,723)</b>	<b>\$ (1,676,971)</b>	<b>\$ (6,018,475)</b>	<b>\$ (4,180,084)</b>
Basic and diluted loss per share	\$ (0.03)	\$ (0.02)	\$ (0.07)	\$ (0.06)
Weighted average number of shares outstanding - basic and diluted	85,022,973	78,492,891	84,870,011	75,078,115

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)

	Nine months ended September 30 2022	Nine months ended September 30 2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Loss for the period	\$ (6,018,475)	\$ (4,180,084)
Items not affecting cash:		
Depletion	833,674	101,724
Share-based payments	3,013,425	1,639,335
Interest and accretion on convertible debenture	757,012	627,908
Unrealized foreign exchange effect	(30,072)	(22,308)
Deferred income tax recovery	(13,400)	(12,428)
Changes in non-cash operating working capital items		
Receivables	629,606	(408,308)
Prepaid expenses	(9,541)	(62,082)
Accounts payable and accrued liabilities	(528,903)	(626,364)
<b>Net cash used in operating activities</b>	<b>(1,366,674)</b>	<b>(2,942,607)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of royalty interests	(1,460,060)	(29,712,080)
Deferred acquisition costs	(217,096)	-
<b>Net cash used in investing activities</b>	<b>(1,677,156)</b>	<b>(29,712,080)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Shares issued	526,839	19,693,325
Share issue costs	(164,689)	(1,456,124)
Convertible debenture	3,000,000	5,000,000
Financing costs for convertible debenture	(24,366)	(296,062)
Standby charges paid	-	(8,255)
Exercise of stock options and share purchase warrants	51,749	6,550,368
<b>Net cash provided by financing activities</b>	<b>3,389,533</b>	<b>29,483,252</b>
Effect of exchange rate changes on cash	56,726	(12,542)
<b>Change in cash</b>	<b>402,429</b>	<b>(3,183,977)</b>
<b>Cash, beginning of period</b>	<b>962,745</b>	<b>5,400,687</b>
<b>Cash, end of period</b>	<b>\$ 1,365,174</b>	<b>\$ 2,216,710</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	5,819,600	19,693,325	-	-	-	19,693,325
Shares issued for royalty interests	5,678,342	26,002,854	-	-	-	26,002,854
Share issue costs	-	(1,456,124)	-	-	-	(1,456,124)
Exercise of stock options	1,325,000	579,335	-	(248,085)	-	331,250
Share purchase warrants exercised	8,584,905	6,583,923	-	(364,805)	-	6,219,118
Convertible debenture converted	3,535,691	3,323,768	-	(151,947)	-	3,171,821
Convertible debenture - equity component	-	-	-	198,503	-	198,503
Share-based payments - RSUs vested and settled	500,000	250,000	-	700,859	-	950,859
Share-based payments - Options vested	-	-	-	688,476	-	688,476
Loss for the period	-	-	-	-	(4,180,084)	(4,180,084)
<b>Balance as at September 30, 2021</b>	83,427,787	\$ 86,111,827	\$ 28,572	\$ 2,150,473	\$ (8,606,592)	\$ 79,684,280

  

	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	218,551	676,265	-	-	-	676,265
Share issue costs	-	(164,689)	-	-	-	(164,689)
Stock options exercised	125,000	54,654	-	(23,404)	-	31,250
Share purchase warrants exercised	40,998	31,317	-	(10,818)	-	20,499
Convertible debenture - equity component	-	-	-	106,750	-	106,750
Share-based payments - RSUs vested	-	-	-	573,911	-	573,911
Share-based payments - Options vested	-	-	-	2,439,514	-	2,439,514
RSUs settled	394,366	782,408	-	(782,408)	-	-
Loss for the period	-	-	-	-	(6,018,475)	(6,018,475)
<b>Balance as at September 30, 2022</b>	85,325,109	\$ 90,766,537	\$ 28,572	\$ 5,692,650	\$(19,869,247)	\$ 76,618,512

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 AND NINE MONTHS ENDED SEPTEMBER 30, 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 twelve months. 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. Management estimates it has sufficient cash, available credit, and access to equity to continue operations over the next 12 months. The Company's continuing operations and the ability of the Company to meet commitments in the longer term are dependent on the realization of cash generating royalty interests and upon the ability of the Company to continue to raise additional debt or equity financing.

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 Accounting Standard 34, Interim Financial Reporting ("IAS 34"). Certain disclosures included in the annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS") have been condensed or omitted, and accordingly, 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, estimates, and judgements 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 only subsidiary is Nova Royalty USA Corp., wholly-owned and incorporated in the state of Delaware, USA.

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

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)****Accounting standard amendment issued but not yet effective***IAS 1 - Presentation of Financial Statements*

In January 2020, the IASB issued an amendment to IAS 1, Presentation of Financial Statements, to clarify one of the requirements under the standard for classifying a liability as non-current in nature. The amendment includes:

- Specifying that an entity's right to defer settlement must exist at the end of the reporting period;
- Clarifying that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
- Clarifying how lending conditions affect classification; and
- Clarifying if the settlement of a liability refers to the transfer of cash, equity instruments, other assets or services.

The Company will perform an assessment of the amendment on its financial statements prior to the effective date of January 1, 2024. Based on the currently available information, the Company does not anticipate any impact from this amendment on its financial statements.

**3. RECEIVABLES**

	September 30 2022	December 31 2021
Royalty receivable	\$ 353,786	\$ 961,885
GST/VAT and other taxes recoverable	41,842	36,745
Other receivables	1,938	1,938
	<b>\$ 397,566</b>	<b>\$ 1,000,568</b>

The Company's receivables arise from royalty revenue receivable and goods and services tax receivable from government taxation authorities.

**4. ROYALTY INTERESTS**

	December 31 2021		September 30 2022		Historical Cost	Accumulated Depletion
		Additions	Depletion			
Josemaria	\$ -	\$ 322,848	\$ -	\$ 322,848	<b>\$ 322,848</b>	\$ -
Copper World/Rosemont	-	3,477,809	-	3,477,809	<b>3,477,809</b>	-
Aranzazu	11,448,754	2,781	(833,674)	10,617,861	<b>11,847,364</b>	<b>(1,229,503)</b>
West Wall	5,313,588	-	-	5,313,588	<b>5,313,588</b>	-
Taca Taca	44,041,003	5,956	-	44,046,959	<b>44,046,959</b>	-
Vizcachitas	12,851,393	-	-	12,851,393	<b>12,851,393</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>	-
Other <sup>1</sup>	1,983,350	-	-	1,983,350	<b>1,983,350</b>	-
	<b>\$ 83,347,266</b>	<b>\$ 3,809,394</b>	<b>\$ (833,674)</b>	<b>\$ 86,322,986</b>	<b>\$87,552,489</b>	<b>\$ (1,229,503)</b>

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

**Josemaria royalty**

In May 2022, the Company entered into a purchase agreement with a group of existing royalty holders pursuant to which the Company has secured the right to acquire a portion of an existing royalty on the Josemaria copper-gold-silver project ("Josemaria") in San Juan, Argentina, owned by Lundin Mining Corporation (TSX:LUN, Nasdaq Stockholm:LUMI). The royalty includes a 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 commencing on production and an additional US\$2,000,000 payment six months following two full years of production (in aggregate, the "Josemaria Royalty"). The portion of the royalty that will be acquired by the Company (the "Nova Portion") is subject to the finalization of an estate partitioning process in Argentina. The acquisition is not expected to close until the conclusion of this process, which may require more than 12 months from the date the agreement was entered into. However, through this purchase agreement, the Company has secured rights to future ownership of the Nova Portion at a predetermined price.

## **NOVA ROYALTY CORP.**

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

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

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

##### **Josemaria royalty (cont'd...)**

This agreement specifies a total purchase price of US\$13,712,000 for 100% of the Royalty (the "Total Price"), payable at the achievement of future milestones, plus an additional advanced payment of US\$100,000.

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

- a) Advanced payments totaling US\$100,000, where \$34,413 (US\$26,832) has been paid and 3,941 common shares have been issued with a fair value of \$8,828 (US\$6,500);
- b) 50% of the Nova Consideration, payable in cash 30 business days following the receipt of notice that the Company has been recorded as sole titleholder of the Nova Portion with the relevant mining authority;
- c) 25% of the Nova Consideration, payable in cash 30 business days following commencement of construction at Josemaria, provided that the estate partitioning has first been finalized; and
- d) 25% of the Nova Consideration, payable in cash 30 business days following the 12-month anniversary of commercial production at Josemaria, provided that the estate partitioning has first been finalized.

##### **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) \$1,261,853 (US\$992,647) in cash on closing (paid);
- b) \$667,437 (US\$500,000) in common shares on closing (issued 214,610 common shares of the Company with a fair value of \$667,437);
- c) US\$992,647 in cash (accrued) 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 retains a ROFR in respect to an additional 0.540% NSR owned by the sellers of the royalty, covering the same area as 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") in Zacatecas, Mexico, 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 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.

##### **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 \$5,105,436 (US\$4,200,000) 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.



## **NOVA ROYALTY CORP.**

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

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

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

##### **West Wall royalty (cont'd...)**

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 \$11,070,230 (US\$8,500,000) and 2,000,000 common shares of the Company, with a fair value of \$3,200,000, with additional payments of \$608,045 (US\$500,000) six months after closing (paid), US\$1,000,000 twelve months after closing (\$1,239,478 paid), and US\$500,000 in November 2022 (accrued). 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 based on 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 \$3,809,400 (US\$3,000,000) in cash and 4,545,454 common shares of the Company, with a fair value of \$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 with a fair value of \$525,064.

##### **Vizcachitas royalty**

In February 2021, the Company completed the acquisition of a 0.98% NSR on open pit operations and 0.49% on underground operations on the San Jose 1/3000 claim which represents approximately 50% of the project within the Vizcachitas copper-molybdenum porphyry project in Central Chile. Vizcachitas is 100% owned by Los Andes Copper Ltd. ("LAC"; TSXV:LA). The acquisition price was \$8,264,373 (US\$6,500,000) 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) \$1,948,052 (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 with a fair value of \$1,948,052);
- b) \$2,236,860 (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 with a fair value of \$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 exploitation 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 exploitation 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 exploitation 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 exploitation 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 with a fair value of \$163,179.

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

(Unaudited - Expressed in Canadian Dollars)

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 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 forming part of the NuevaUnión copper-gold project ("NuevaUnión") located in the Huasco Province in the Atacama region of Chile. NuevaUnión is jointly owned by Newmont Corporation ("Newmont"; NYSE:NEM) and Teck Resources Limited ("Teck"; NYSE:TECK). The acquisition was completed jointly 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 \$2,992,635 (US\$2,250,000) in cash. In February 2021, the Company paid \$952,867 (US\$750,000) 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, Canada, which project was previously held by Karora Resources Inc. ("Karora"). In January 2021, Karora sold its interest in the project 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**

	September 30 2022	December 31 2021
Opening balance	\$ 291,538	\$ 75,658
Additions	447,468	397,096
Expensing of acquisitions not completed	(176,474)	-
Reallocation for completed acquisitions	(362,724)	(181,216)
	\$ 199,808	\$ 291,538

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**

	September 30 2022	December 31 2021
Trade and other payables	\$ 431,822	\$ 639,070
Payables on Taca Taca acquisition (Note 4)	685,350	633,900
Payables on Copper World/Rosemont acquisition (Note 4)	1,360,621	-
Accrued liabilities	1,105,855	1,220,997
	\$ 3,583,648	\$ 2,493,967

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**7. CONVERTIBLE DEBENTURE**

	September 30 2022	December 31 2021
Opening balance	\$ 4,898,593	\$ 3,026,912
Additions	3,000,000	5,000,000
Transaction costs	(23,361)	(279,838)
Allocation of conversion feature	(121,154)	(273,961)
Accretion and interest	555,928	550,493
Conversion to common shares	-	(3,125,013)
	<b>\$ 8,310,006</b>	<b>\$ 4,898,593</b>

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. An initial advance of \$3,500,000 was made at closing, and the remaining \$9,500,000 was available for subsequent advances in minimum tranches of \$1,500,000 over the term of the facility.

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 at the time of the advance. The loan carried an interest rate of 8.0% on advanced funds and 1.5% standby fee on 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 \$3,278,109 was allocated as a financial liability and the residual value of \$221,891 was allocated to the conversion feature as equity. 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. Transaction costs of \$341,795 and \$23,136 were allocated to the financial liability and equity portions of the convertible debt respectively. 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. The Company incurred \$98,100 of interest expense from January 1, 2021 up to the date of conversion.

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 \$279,838 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 accrued \$405,180 (2021 - \$317,881) of interest expense on the second advance for the nine months ended September 30, 2022.

In February 2021, the Company entered into an amended and restated convertible loan agreement with Beedie in which the funds available under the facility increased to \$20,000,000. The interest rate of 8% and maturity date of October 7, 2024 remained unchanged. 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 nine months ended and as at September 30, 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 \$15,833 related to the taxable temporary difference arising from the equity portion of the convertible loan has been recognized in equity reserves. Transaction costs of \$16,147 and \$719 were allocated to the financial liability and equity portions of the convertible debt respectively. The effective interest rate on the liability is 10.3% per annum, with an original expected life of 2.70 years. The Company has accrued \$99,286 (2021 - \$Nil) of interest expense on the third advance for the nine months ended September 30, 2022.

## **NOVA ROYALTY CORP.**

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

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#### **7. CONVERTIBLE DEBENTURE (cont'd...)**

In May 2022, an advance of \$1,500,000 was drawn on the facility. This fourth advance is convertible 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. On initial recognition of the fourth advance, \$1,442,784 was allocated as a financial liability and the residual value of \$57,216 was allocated to the conversion feature as equity. A deferred tax liability of \$14,688 related to the taxable temporary difference arising from the equity portion of the convertible loan has been recognized in equity reserves. Transaction costs of \$7,214 and \$286 were allocated to the financial liability and equity portions of the convertible debt respectively. The effective interest rate on the liability is 10.1% per annum, with an original expected life of 2.38 years. The Company has accrued \$51,463 (2021 - \$Nil) of interest expense on the fourth advance for the nine months ended September 30, 2022.

As at September 30, 2022, undrawn funds available under the convertible loan facility were \$17,000,000 (December 31, 2021 - \$20,000,000).

During the nine months ended September 30, 2022, the Company recorded standby charges of \$201,084 (2021 - \$211,926) included in interest and accretion on convertible debenture, of which \$Nil (2021 - \$8,255) was paid and \$201,084 (2021 - \$203,671) was included in accrued liabilities as at September 30, 2022.

#### **8. SHARE CAPITAL**

As at September 30, 2022, the authorized share capital consists of an unlimited number of common shares without par value, of which Nil (December 31, 2021 - 1,393,125) common shares are held in escrow to be released over time.

In February 2021, the Company established an at-the-market ("ATM") equity program (the "2021 ATM Program") to distribute up to \$25,000,000 of common shares of the Company under the ATM equity program. The common shares under the ATM will be issued by the Company to the public from time to time, through the agents, at the Company's discretion. The distribution agreement for the ATM equity program terminates on the earlier of (a) the date that the aggregate gross sales proceeds of the share sold under the ATM equity program reaches the aggregate amount of \$25,000,000 (\$17,881,705 remaining as at September 30, 2022), or (b) November 1, 2022 (extended subsequently).

In November 2022, to enhance the Company's financial flexibility, the Company filed a preliminary short form base shelf prospectus. In connection with this transition, the Company intends to terminate its 2021 ATM Program (Note 13).

##### **Issued share capital**

During the nine months ended September 30, 2022, the Company issued 154,600 (2021 - 1,680,000) common shares pursuant to its ATM equity program for gross proceeds of \$526,839 (2021 - \$6,032,645) with aggregate share issue costs paid and/or accrued of \$164,689 (2021 - \$424,914).

During the nine months ended September 30, 2021, the Company issued 4,139,600 common shares pursuant to a prospectus supplement for gross proceeds of \$13,660,680 with aggregate share issuance costs of \$912,807.

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FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022

**8. SHARE CAPITAL (cont'd...)****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.

The continuity of stock options for the nine months ended September 30, 2022 is as follows:

	Outstanding	Weighted average exercise price
As at December 31, 2021	4,180,000	2.52
Granted	1,790,000	1.56
Exercised	(125,000)	0.25
As at September 30, 2022	5,845,000	\$ 2.27

The weighted average remaining life of stock options outstanding is 3.69 (December 31, 2021 - 3.89) years. The Company's outstanding and exercisable stock options as at September 30, 2022 are as follows:

Expiry date	Exercise price	Outstanding	Exercisable
March 1, 2024	\$ 0.25	1,100,000	1,100,000
March 1, 2026	\$ 4.75	325,000	108,332
August 27, 2026	\$ 3.30	2,630,000	1,315,000
July 20, 2027	\$ 1.56	1,790,000	-
		5,845,000	2,523,332

**Restricted share units**

The continuity of RSUs for the nine months ended September 30, 2022 is as follows:

	Outstanding
As at December 31, 2021	1,305,000
Settled	(394,366)
As at September 30, 2022	910,634

As at September 30, 2022, the weighted average remaining life of the RSUs outstanding was 0.42 (December 31, 2021 - 0.89) years with vesting periods of up to 36 months. The Company's outstanding RSUs as at September 30, 2022 are as follows:

Final vesting date	Outstanding	Unvested
April 27, 2022	643,334	-
March 1, 2024	267,300	267,300
	910,634	267,300

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**8. SHARE CAPITAL (cont'd...)****Share purchase warrants**

The continuity of share purchase warrants for the nine months ended September 30, 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 June 30, 2022	-	\$ -

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

During the nine months ended September 30, 2022, the Company granted 1,790,000 (2021 - 2,955,000) stock options with a weighted average fair value of \$0.68 (2021 - \$1.68) per option. The fair value of the stock options granted was estimated using the Black-Scholes option pricing model with the following assumptions:

	Nine months ended September 30 2022	Nine months ended September 30 2021
Weighted average:		
Risk free interest rate	3.10%	0.86%
Expected dividend yield	0%	0%
Expected stock price volatility	46%	59%
Expected life in years	5	5
Forfeiture rate	0%	0%

During the three and nine months ended September 30, 2022, the Company recorded share-based payment expense of \$935,954 and \$3,013,425 (2021 - \$796,766 and \$1,639,335), of which \$802,609 and \$2,439,514 (2021 - \$441,768 and \$688,476) represents the fair value of options vested during the period with the offsetting amounts credited to reserves, and \$133,345 and \$573,911 (2021 - \$354,998 and \$950,859) 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:

	Salary or consulting fees	Share-based payments	Total
<b>Nine months ended September 30, 2022</b>			
Management	\$ 147,933	\$ 504,645	\$ 652,578
Directors	298,491	1,360,857	1,659,348
	<b>\$ 446,424</b>	<b>\$ 1,865,502</b>	<b>\$ 2,311,926</b>
<b>Nine months ended September 30, 2021</b>			
Management	\$ 136,958	\$ 281,805	\$ 418,763
Directors	207,475	807,415	1,014,890
	<b>\$ 344,433</b>	<b>\$ 1,089,220</b>	<b>\$ 1,433,653</b>

Included in the table above, during the nine months ended September 30, 2022, the Company paid or accrued \$111,350 (2021 - \$82,475) to a director for oversight function provided by the ATM committee.

In addition to the amounts in the table above, during the nine months ended September 30, 2022, the Company paid or accrued \$135,000 (2021 - \$135,000) 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.

As at September 30, 2022, included in accounts payable and accrued liabilities is \$256,069 (December 31, 2021 - \$489,997) payable to key management personnel for fees and reimbursable expenses, and \$Nil (December 31, 2021 - \$Nil) to Seabord. In addition, as at September 30, 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 nine months ended September 30, 2022, the Company had the following non-cash investing and financing activities not disclosed elsewhere:

- accrued \$1,364,243 in accounts payable and accrued liabilities pursuant to royalty interest acquisition agreements and due diligence costs.

During the nine months ended September 30, 2021, the Company had the following non-cash investing and financing activities not disclosed elsewhere:

- accrued \$137,056 in accrued liabilities pursuant to royalty interest due diligence costs.

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**11. FINANCIAL INSTRUMENTS**

The Company classified its financial instruments as follows:

	September 30	December 31
	2022	2021
Financial assets - amortized cost:		
Cash	\$ 1,365,174	\$ 962,745
Royalty receivable	353,786	961,885
Other receivables	1,938	1,938
Financial liabilities - amortized cost:		
Accounts payable and accrued liabilities	3,583,648	2,493,967
Convertible debenture	\$ 8,310,006	\$ 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, and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of these instruments.

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 and the liability portion of the convertible debentures. 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 September 30, 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 \$12,000.

**12. COMMITMENTS**

As at September 30, 2022, the Company had commitments payable as follows:

	Less than 1 year	1 to 4 years	Total
Trade and other payables	\$ 431,822	-	\$ 431,822
Accrued liabilities	1,105,855	-	1,105,855
Payments related to acquisitions	2,045,971	-	2,045,971
Convertible debenture (including interest)	1,405,041	8,654,027	10,059,068
	\$ 4,988,689	\$ 8,654,027	\$ 13,642,716

In addition to the commitments payable above, the Company could in the future have additional contingent commitment amounts payable in cash and/or common shares related to the acquisition of royalty interests as disclosed in Note 4. However, these payments have not been accrued as they are subject to certain milestone conditions that have not occurred as at September 30, 2022.

**13. EVENTS AFTER REPORTING DATE**

Subsequent to September 30, 2022, the Company:

- issued 968,700 common shares under the 2021 ATM Program for gross proceeds of \$1,494,032 and with aggregate share issuance costs paid of \$37,351; and
- filed a preliminary short form base shelf prospectus, which when made final, will replace the amended and restated base shelf prospectus previously filed by the Company. In connection with this transition, the Company intends to terminate its 2021 ATM Program.