

NOVA CANNABIS INC.

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, expressed in thousands of Canadian dollars)

Nova Cannabis Inc.**Condensed Interim Consolidated Statements of Financial Position***(Unaudited, in thousands of Canadian dollars)*

	Note	As at June 30, 2022 \$	As at December 31, 2021 \$
Assets			
Current assets:			
Cash		6,220	10,527
Receivables		1,186	1,159
Inventory		10,544	8,733
Prepaid expenses and deposits		3,886	672
		21,836	21,091
Deposits		972	980
Property and equipment	4	32,181	30,172
Right-of-use assets	5	45,256	47,183
Goodwill		19,270	19,270
		119,515	118,696
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities		5,352	7,876
Revolving credit facility	6	9,594	-
Current portion of lease liabilities	5	5,545	5,453
Warrant liabilities		1	81
		20,492	13,410
Lease liabilities	5	44,973	46,520
		65,465	59,930
Shareholders' equity:			
Equity attributable to shareholders	8	97,710	97,618
Contributed surplus		2,069	1,974
Deficit		(45,729)	(40,826)
		54,050	58,766
		119,515	118,696
Subsequent event	17		

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

Nova Cannabis Inc.**Condensed Interim Consolidated Statements of Changes in Equity***(Unaudited, in thousands of Canadian dollars)*

	Share capital (note 8) \$	Contributed surplus \$	Deficit \$	Total \$
Opening balance – as at January 1, 2021	37,273	-	(20,212)	17,061
Loss and comprehensive loss for the period	-	-	(9,247)	(9,247)
Business combination	22,750	200	-	22,950
Issuance of common shares	40,057	-	-	40,057
Share issuance costs	(3,594)	653	-	(2,941)
Balance – as at June 30, 2021	96,486	853	(29,459)	67,880
Opening balance – as at January 1, 2022	97,618	1,974	(40,826)	58,766
Loss and comprehensive loss for the period	-	-	(4,903)	(4,903)
Share-based payments (note 10)	-	266	-	266
Settlement of equity-based payments	92	(171)	-	(79)
Balance – as at June 30, 2022	97,710	2,069	(45,729)	54,050

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

Nova Cannabis Inc.**Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
Three and Six Months Ended June 30, 2022 and 2021***(Unaudited, in thousands of Canadian dollars except for per common share data)*

	Note	Three months ended June 30,		Six months ended June 30,	
		2022 \$	2021 \$	2022 \$	2021 \$
Sales	12	56,299	29,687	106,131	48,083
Cost of sales		45,698	24,515	86,174	38,124
Gross margin		10,601	5,172	19,957	9,959
Selling and distribution expenses	13	7,148	5,006	13,835	8,107
Administrative expenses	14	1,037	2,355	3,567	3,666
Management fee	11	312	313	625	813
Operating profit (loss) excluding depreciation, impairment and other costs		2,104	(2,502)	1,930	(2,627)
Depreciation		2,696	3,169	5,328	4,816
Impairment, lease remeasurements and other costs		119	873	119	804
Operating loss		(711)	(6,544)	(3,517)	(8,247)
Finance costs		958	764	1,839	1,314
Net gain on fair value adjustments		(299)	(286)	(453)	(314)
Loss and comprehensive loss		(1,370)	(7,022)	(4,903)	(9,247)
Basic and diluted loss per share	9	(0.02)	(0.12)	(0.09)	(0.19)

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

Nova Cannabis Inc.

Condensed Interim Consolidated Statements of Cash Flows

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars)

	Note	Three months ended June 30,		Six months ended June 30,	
		2022 \$	2021 \$	2022 \$	2021 \$
Cash provided by (used in)					
Operating activities:					
Loss for the period		(1,370)	(7,022)	(4,903)	(9,247)
Adjustments to reconcile loss to net cash flows from operating activities:					
Depreciation of property and equipment	4	1,106	1,682	2,144	2,184
Depreciation of right-of-use assets	5	1,575	1,454	3,148	2,495
Loss on disposal of assets		15	33	36	137
Non-cash interest on revolving credit facility	6	90	14	94	39
Lease remeasurements	5	119	16	119	(53)
Impairment of property and equipment		-	607	-	607
Impairment of right-of-use assets		-	250	-	250
Equity-settled shared-based payments	10	10	-	10	-
Net gain on fair value adjustments		(299)	(286)	(453)	(314)
Cash provided by (used in) operating activities before changes in non-cash working capital		1,246	(3,252)	195	(3,902)
Net change in non-cash working capital items	15	(1,225)	(2,757)	(6,087)	(4,637)
		21	(6,009)	(5,892)	(8,539)
Investing activities:					
Purchase of property and equipment		(2,116)	(931)	(4,975)	(1,837)
Business combination, cash acquired		-	-	-	406
Redemption obligation payment		-	(1,084)	-	(1,084)
		(2,116)	(2,015)	(4,975)	(2,515)
Financing activities:					
Principal portion of lease payments	5	(1,602)	(1,239)	(2,940)	(2,332)
Proceeds from revolving credit facility	6	5,000	-	10,800	3,336
Repayments of revolving credit facility	6	-	(3,396)	(1,300)	(3,396)
Repayments of long-term debt		-	(200)	-	(200)
Issuance of common shares, net of cash share issuance costs		-	-	-	37,116
		3,398	(4,835)	6,560	34,524
Increase (decrease) in cash and restricted cash		1,303	(12,859)	(4,307)	23,470
Cash and restricted cash - Beginning of period		4,917	37,766	10,527	1,437
Cash and restricted cash - End of period		6,220	24,907	6,220	24,907
Deduct: Restricted cash - End of period		-	-	-	-
Cash - End of period		6,220	24,907	6,220	24,907

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

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

1 Nature of the business

The full name of the company is Nova Cannabis Inc. (formerly YSS Corp.) (“Nova” or the “Company”), and the Company’s registered office is 101, 17220 Stony Plain Road, Edmonton, Alberta. The Company is a publicly-traded corporation listed on the Toronto Stock Exchange (“TSX”) under the trading symbol “NOVC”.

The Company’s principal activity is the operation of retail cannabis stores in Canada. As at June 30, 2022, the Company operates 80 (December 31, 2021 – 74) retail cannabis stores. The Company operates 58 (December 31, 2021 – 57) retail cannabis stores in Alberta, 21 (December 31, 2021 – 16) in Ontario, and one (December 31, 2021 – one) in Saskatchewan.

On March 31, 2022, Sundial Growers Inc. (“Sundial”) and Alcanna Inc. (“Alcanna”) completed the previously announced acquisition (the “Sundial-Alcanna Transaction”) of all of the issued and outstanding common shares of Alcanna by Sundial. Pursuant to the Sundial-Alcanna Transaction, Sundial acquired approximately 63% ownership interest in Nova, as Alcanna is the registered holder of 35,750,000 Nova common shares, and as at March 31, 2022, Alcanna is a wholly owned subsidiary of Sundial. As at March 31, 2022, the Company’s parent entity is Alcanna and the ultimate parent of the group is Sundial.

The Company’s operations are viewed as a single operating segment by the Company’s Management for the purpose of resource allocation and assessing performance.

The condensed interim consolidated financial statements (the “financial statements”) were approved and authorized for issuance by the Board of Directors on August 11, 2022.

2 Basis of preparation and significant accounting policies

a) Statement of compliance

These financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting, and do not include all of the information required for full annual financial statements. Accordingly, these financial statements should be read in conjunction with Nova’s audited annual consolidated financial statements and notes thereto for the year ended December 31, 2021 (the “Annual Financial Statements”). However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements.

b) Basis of preparation and significant accounting policies

The basis of preparation and accounting policies applied by the Company in these financial statements, including comparatives, are consistent with those used in the Annual Financial Statements, other than as described in note 2c below. The Company’s functional currency, and the presentation currency of these financial statements, is the Canadian dollar.

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

c) Additional significant accounting policies applicable

Revenue recognition

Software licensing

Revenue is generated from software licensing services provided to customers. Revenue is recognized when the services are delivered to the customer as outlined by the contract. The Company does not operate or manage these services separately from its primary retail sales or operations.

d) New accounting standards and amendments

A number of new standards, amendments to standards, and interpretations of standards have been issued by the International Accounting Standards Board and the International Financial Reporting Interpretations Committee and are effective for annual reporting periods beginning on or after January 1, 2022, which the Company adopted and determined did not have a significant impact on these financial statements.

The Company has not early adopted the new standards, amendments to standards, and interpretations of standards that become effective for annual reporting periods beginning on or after January 1, 2023, in preparing these financial statements and does not expect the implementation of which to have a significant impact on its accounting policies.

e) Significant estimates and assumptions

The preparation of these financial statements requires management to make judgments, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, and income and expense. Actual results may differ from those estimates. Significant estimates and judgments used in the preparation of these financial statements are described in note 2 of the Annual Financial Statements.

3 Transfer of Ontario retail operations

In connection with the Sundial-Alcanna Transaction, the Company entered into certain agreements on March 30, 2022, for 21 Ontario retail stores (the "Ontario Stores") with Spirit Leaf Ontario Inc. (the "Ontario Purchaser"), (collectively the "Ontario Agreements"). As part of the Ontario Agreements, the Ontario regulator concurrently canceled the Company's rights to the respective Retail Store Authorizations (the "RSAs") and issued new RSAs for the Ontario Stores to the Ontario Purchaser, making reference to the agreements managing the rights and responsibilities of the Company and the Ontario Purchaser. The newly issued RSAs include certain additional conditions that prohibit the modification of the Ontario Agreements without notification in writing to the Alcohol and Gaming Commission of Ontario. The Ontario Purchaser also obtained legal title to inventory and store leasehold improvements with a net carrying value of \$10,723.

As a result of the above transaction, the Ontario Stores now operate under the RSAs of the Ontario Purchaser. The Ontario Agreements were executed to comply with the regulatory restrictions that prohibit Sundial, as a licensed producer of cannabis, from directly or indirectly owning or controlling more than a 25% interest in any licensed Ontario cannabis retailer.

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

Due to the Company's obligations to fund and staff store operations, including control over other relevant activities, with exposure to variable returns from the store operations, the Company concluded that there was no change in accounting control of the Ontario Stores, and no required derecognition at March 30, 2022. As such, the Company continues to report the results of store operations.

4 Property and equipment

	Leasehold improvements	Fixtures and equipment	Signage and displays	Computer equipment	Vehicles	Total
Cost						
Balance as at January 1, 2022	24,077	10,180	1,443	1,430	212	37,342
Additions ⁽ⁱ⁾	3,106	742	222	79	40	4,189
Disposals	(11)	(8)	(24)	-	(25)	(68)
Balance as at June 30, 2022	27,172	10,914	1,641	1,509	227	41,463
Accumulated depreciation and impairment losses						
Balance as at January 1, 2022	4,070	2,296	185	553	66	7,170
Depreciation	1,105	709	125	153	52	2,144
Disposals	-	(1)	(21)	-	(10)	(32)
Balance as at June 30, 2022	5,175	3,004	289	706	108	9,282
Net book value						
Balance as at January 1, 2022	20,007	7,884	1,258	877	146	30,172
Balance as at June 30, 2022	21,997	7,910	1,352	803	119	32,181

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

	Leasehold improvements	Fixtures and equipment	Signage and displays	Computer equipment	Vehicles	Total
Cost						
Balance as at January 1, 2021	13,215	5,521	923	951	65	20,675
Additions ⁽ⁱ⁾	2,482	1,556	463	125	-	4,626
Acquired	3,707	1,355	388	329	-	5,779
Disposals	-	(182)	(631)	(152)	-	(965)
Balance as at June 30, 2021	19,404	8,250	1,143	1,253	65	30,115
Accumulated depreciation and impairment losses						
Balance as at January 1, 2021	1,574	1,007	365	441	15	3,402
Depreciation	682	624	597	275	6	2,184
Impairment	376	159	47	25	-	607
Disposals	-	(86)	(593)	(149)	-	(828)
Balance as at June 30, 2021	2,632	1,704	416	592	21	5,365
Net book value						
Balance as at January 1, 2021	11,641	4,514	558	510	50	17,273
Balance as at June 30, 2021	16,772	6,546	727	661	44	24,750

(i) Expenditures for additions to property and equipment differ from cash used in the purchase of property and equipment per the Consolidated Statements of Cash Flows due to timing of cash payments compared to capitalization of assets.

5 Right-of-use assets and lease liabilities

The Company's leasing activities consist primarily of retail store leases. Lease contracts are typically made for fixed periods of 5 to 10 years but often have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Below is a summary of the activity related to the Company's right-of-use assets for the three and six months ended June 30, 2022, and 2021:

	Three months ended		Six months ended	
	June 30,	June 30,	June 30,	June 30,
	2022	2021	2022	2021
	\$	\$	\$	\$
Right-of-use assets, beginning of period	46,320	46,587	47,183	32,264
Additions	768	4,210	1,511	8,734
Acquired	-	(249)	-	10,726
Remeasurements	(276)	(31)	(309)	(166)
Impairment of right-of-use assets	-	(250)	-	(250)
Tenant inducement allowances	19	(41)	19	(41)
Right-of-use asset depreciation	(1,575)	(1,454)	(3,148)	(2,495)
Right-of-use assets, end of period	45,256	48,772	45,256	48,772

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

Below is a summary of the activity related to the Company's lease liabilities for the three and six months ended June 30, 2022, and 2021:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Lease liabilities, beginning of period	51,424	50,104	51,973	35,431
Additions	768	4,210	1,511	8,734
Acquired	-	(284)	-	11,107
Remeasurements	(157)	(15)	(190)	(219)
Tenant inducement allowances	85	(52)	164	3
Accretion of lease liabilities	868	756	1,745	1,281
Lease payments	(2,470)	(1,995)	(4,685)	(3,613)
Lease liabilities, end of period	50,518	52,724	50,518	52,724
Of which are:				
Current	5,545	5,288	5,545	5,288
Non-current	44,973	47,436	44,973	47,436
	50,518	52,724	50,518	52,724

The following table presents the maturity analysis of contractual undiscounted cash flows, excluding periods covered by lessee lease extension options that have been included in the determination of the lease term, related to the Company's lease liabilities as of June 30, 2022:

	2022	2023	2024	2025	2026	2027 and thereafter
Leases	4,364	8,568	7,677	7,342	7,249	23,082

6 Revolving credit facility

The Company has an uncommitted revolving credit facility with Sundial, in an aggregate principal amount not to exceed \$15,000 (the "Credit Facility"). During the three months ended June 30, 2022, the Company and Sundial agreed to increase the maximum total principal borrowings from \$5,000 to \$15,000. The Credit Facility has remained in place subsequent to the Sundial-Alcanna Transaction. In connection with the Credit Facility, Sundial was granted a security interest in all present and after-acquired personal property of the Company as of the effective date of the Credit Facility. The Credit Facility bears interest at the Canadian prime rate of interest, plus 2.75%, equating to 6.45% as at June 30, 2022. Interest is calculated and compounded monthly from the date of such advance on the principal sum remaining unpaid and outstanding. The principal and any accrued and unpaid interest payable balance outstanding is due and payable on October 31, 2022, or earlier upon demand by Sundial for the principal, as permitted under the Credit Facility agreement. During the three and six months ended June 30, 2022, the Company received advances on the Credit Facility of \$5,000 and \$10,800 (2021 - \$nil and \$3,336), made repayments of \$nil and \$1,300 (2021 - \$3,396 and \$3,396), and accrued interest of \$90 and \$94 (2021 - \$14 and \$39), respectively.

7 Income tax

The Company has not recognized any deferred tax assets given that the recovery of such assets is dependent on future taxable earnings being in excess of those arising from the reversals of existing taxable temporary differences and tax loss carry forwards. Material uncertainty of future taxable earnings from the cannabis industry exists due to the

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

start-up nature of the industry and uncertainty over the regulatory environment. The accounting treatment has no effect on the Company's ability to utilize deferred tax assets to reduce future cash tax payments. The Company will continue to assess the likelihood that the deferred tax assets will be realizable at the end of each reporting period and adjust the carrying amount accordingly by considering factors such as the reversal of deferred income tax liabilities, projected future taxable income, tax planning strategies and changes in tax laws.

8 Share capital

a) Authorized:

An unlimited number of voting common shares are authorized to be issued.

b) Issued and outstanding:

	#	\$
Balance – January 1, 2021	35,750,000	37,273
Common shares held by former YSS Corp.	7,583,353	22,750
Issuance of common shares	13,352,333	40,057
Common share issuance costs	-	(3,594)
Balance – June 30, 2021	56,685,686	96,486
Balance – January 1, 2022	57,092,928	97,618
Shares issued on settlement of equity-based compensation awards	61,666	92
Balance – June 30, 2022	57,154,594	97,710

9 Loss per share

Loss per share amounts are calculated by dividing the loss for the period by the weighted average number of shares outstanding during the period. For the three and six months ended June 30, 2022, and 2021, the basic and diluted loss per share are the same as the Company is in a net loss position and the effects of any potentially dilutive instruments, including stock options and warrants, would be anti-dilutive.

	Three months ended June 30,		Six months ended June 30,	
	2022	2021	2022	2021
Loss attributable to equity shareholders (\$)	(1,370)	(7,022)	(4,903)	(9,247)
Weighted average number of common shares outstanding – Basic and diluted (#)	57,126,133	56,685,686	57,109,622	47,432,344
Basic and diluted loss per common share (\$)	(0.02)	(0.12)	(0.09)	(0.19)

10 Share-based payments

Incentive award plan

In accordance with the Company's incentive award plan, restricted awards ("RSUs") are granted at the discretion of the Company's Board of Directors. The Company has the option, wholly at its own discretion, to settle awards with cash or in common shares of the Company.

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

May 12, 2022 Grant

On May 12, 2022, the Company agreed to grant 234,000 RSUs to senior executives of the Company (the “May 2022 RSUs”). The Company had previously communicated its intention to grant these units on June 22, 2021, in connection with shareholder ratification of the 2021 Equity Incentive Plan (the “Promissory RSUs”). The number of units awarded and scheduled vesting dates did not change, and vested Promissory RSUs were awarded with a vesting date of “as soon as practicable”. Pursuant to the terms of the incentive award agreements, the May 2022 RSUs were granted as soon as practical upon the expiry of all scheduled trading black-out periods on May 12, 2022. In accordance with the definition of ‘grant date’ under IFRS 2, the grant date of the May 2022 RSUs for vesting purposes was determined to be May 12, 2022, as this is the date on which the Company and all relevant parties agreed to the terms of the incentive award agreements.

As the May 2022 RSUs do not contain a cash-settlement feature as did the Promissory RSUs, the Company has accounted for the May 2022 RSUs as a modification of a share-based payment transaction under IFRS 2. On March 12, 2022, the Company derecognized the liability for the Promissory RSUs and recognized in contributed surplus the value of services received corresponding to the May 2022 RSUs. As the fair value of both the Promissory RSUs and the May 2022 RSUs was the same on the modification date, there was no difference to be recognized in the Consolidated Statements of Loss and Comprehensive Loss. As a result of this modification, the Company recognized \$256 in Contributed Surplus for the three and six months ended June 30, 2022 (2021 – \$nil). For the three and six months ended June 30, 2022, \$10 (2021 – \$nil) was recognized in contributed surplus for the fair value of services received on the May 2022 RSUs subsequent to the modification date.

11 Related party transactions

Compensation of key management personnel

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Salaries and short-term benefits of key management	330	473	711	714
Share-based payments expense	26	514	416	514
Severance	-	180	875	472

Other related party transactions

The Company receives various administrative and support services from Sundial and its subsidiaries, pursuant to a service agreement (the “Service Agreement”) that was made effective March 22, 2021. The Service Agreement has remained in place subsequent to the Sundial-Alcanna Transaction. Prior to the Sundial-Alcanna Transaction, the Company’s relationship with Alcanna and its subsidiaries was such that Alcanna was the parent. Subsequent to the Sundial-Alcanna Transaction, the Company’s relationship with Alcanna is such that they are subject to common control by the same parent, Sundial.

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

The following table summarizes the Company's related party transactions with Sundial and its subsidiaries. Transactions prior to the Sundial-Alcanna Transaction, on March 31, 2022, were with Alcanna and its subsidiaries.

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Management fee	312	313	625	813
Administrative expense reimbursements	135	454	614	481
Lease payments ⁽ⁱ⁾	108	96	209	202
Selling and distribution expense reimbursements	21	48	46	88

The following table summarizes the Company's related party balances with Sundial and its subsidiaries. Balances prior to the Sundial-Alcanna Transaction were with Alcanna and its subsidiaries.

	June 30,	December 31,
	2022	2021
	\$	\$
Accounts payable and accrued liabilities ⁽ⁱⁱ⁾	1,224	1,337
Revolving credit facility (note 6)	9,594	-

⁽ⁱ⁾ The Company subleases three retail cannabis store locations from Sundial, or its subsidiaries, and records these leases in accordance with IFRS 16. Lease liabilities as at June 30, 2022, include \$1,304 (December 31, 2021 - \$1,434 from Alcanna or its subsidiaries) of liabilities relating to leases where Sundial, or its subsidiaries, is the lessor.

⁽ⁱⁱ⁾ The accounts payable and accrued liabilities balance as at June 30, 2022, relates to reimbursement of direct costs paid for by Sundial, or its subsidiaries, on the Company's behalf, including any unpaid management fees, shared head office costs, and services provided by Sundial, or its subsidiaries, beyond the scope of the management fee.

12 Revenue from contracts with customers

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Major products and services				
Retail sales	54,966	29,687	103,632	48,083
Software licensing	1,333	-	2,499	-
	56,299	29,687	106,131	48,083

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

13 Selling and distribution expenses by nature

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Wages and employee benefits	5,039	3,395	9,695	5,379
Store operating costs (supplies, insurance, merchant fees, and other)	1,088	888	2,078	1,364
Lease, premises costs, and property tax	1,002	716	2,018	1,329
Advertising and promotion	14	7	24	35
Share-based payments	5	-	20	-
	7,148	5,006	13,835	8,107

14 Administrative expenses by nature

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Legal, accounting, and professional fees ⁽ⁱ⁾	382	365	509	1,145
Wages and employee benefits	212	640	616	786
Other office expenses	175	75	367	106
Public company and advisory services ⁽ⁱ⁾	124	223	522	256
Computer licensing and support	121	165	278	194
Share-based payments expense ⁽ⁱ⁾	21	514	396	514
Bank charges and merchant fees	2	146	4	146
Severance ⁽ⁱ⁾	-	227	875	519
	1,037	2,355	3,567	3,666

⁽ⁱ⁾ Included in administrative expenses for the three and six months ended June 30, 2022, are \$nil and \$1,583 respectively, of expenses that were incurred as a result of the Sundial-Alcanna Transaction related to Director & Officer insurance, severance, legal fees, and accelerated vesting of share-based payment plans.

15 Supplementary disclosure of cash flow information

Changes in non-cash working capital items comprise the following:

	Three months ended		Six months ended	
	June 30,		June 30,	
	2022	2021	2022	2021
	\$	\$	\$	\$
Receivables	(311)	(95)	(28)	131
Inventory	(982)	(1,382)	(1,811)	(3,109)
Prepaid expenses and deposits	190	(319)	(3,206)	(771)
Accounts payable and accrued liabilities	(122)	(961)	(1,042)	(888)
	(1,225)	(2,757)	(6,087)	(4,637)

For the three and six months ended June 30, 2022, interest on lease liabilities of \$868 (2021 - \$756) and \$1,745 (2021 - \$1,281) are included in cash used in operating activities in the Condensed Interim Consolidated Statements of Cash Flows, respectively.

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

16 Financial instruments

Measurement of financial instruments

a) Fair value hierarchy

Financial instruments recognized in the Condensed Interim Consolidated Statements of Financial Position at fair value are classified in a hierarchy based on the significance of the estimates used in their measurement, as follows:

Level 1 – Quoted priced in active markets for identical assets or liabilities.

Level 2 – Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 – Inputs for the asset or liability that are not based on observable market data.

There have been no transfers of instruments between levels in the hierarchy.

b) Financial instruments measured at other than fair value

Financial assets that are valued at other than fair value on the Condensed Interim Consolidated Statements of Financial Position include cash and receivables. The carrying value less loss allowance of receivables approximates fair value due to the short-term nature of the instruments.

Financial liabilities that are valued at amortized cost are comprised of accounts payable and accrued liabilities. The carrying values approximate fair value due to the short-term nature of the instruments.

The carrying value of the Credit Facility approximates fair value, as the interest rate affecting this interest is at a variable market rate.

Credit risk

Credit risk is the risk that a counterparty to a financial instrument might fail to meet its obligations under the terms of the financial instrument. The Company's financial assets that are exposed to credit risk consist primarily of cash and receivables. The Company's cash consists of petty cash, store cash floats, and cash held at large financial institutions in Canada. The credit risk associated with cash is minimized by ensuring these financial assets are held with Canadian chartered banks. The Company's point-of-sale retail store operations do not give rise to any accounts receivable amounts. As such, the Company is not subject to significant concentration of credit risk with respect to its customers.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate as market prices change. The Company is subject to cash flow interest rate risk as its Credit Facility bears interest at variable rates. With respect to the \$9,594 balance outstanding on the Company's Credit Facility, an increase/decrease of 1.00% in

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

market interest rates would result in a \$96 increase/decrease in the Company's interest expense, net (loss) earnings, and net (loss) earnings per share. The Company manages its interest rate risk through identifying upcoming credit requirements based on strategic plans and repaying the outstanding credit facility balance whenever feasible.

Capital management

The Company's objective when managing capital is to safeguard its ability to continue as a going concern in order that it may continue its operations for the benefit of its shareholders and support any expansion or growth strategy plans. The Company views capital as the combination of its available cash on hand, Credit Facility, and working capital defined as current assets less current liabilities.

As at June 30, 2022, the Company had cash on hand and undrawn Credit Facility of \$11,720 (December 31, 2021 – \$15,527).

Management reviews its capital management approach on an ongoing basis. Management believes that the Company's capital structure described above reflects the requirements of a company focused on profitable growth through the development of new cannabis retail stores, acquisitions, and other growth investments. Growth through development, acquisition, and other growth investments is discretionary which enables the Company to align growth plans with available capital. Management will continue to monitor the adequacy of the Company's capital structure and adjust it accordingly, additional changes could include new or additional credit facilities, issuing debt instruments, or issuing new shares. Recognizing that there is risk and uncertainty associated with raising additional capital, management mitigates this risk by reducing discretionary spending and maintaining sufficient liquidity in order to address any potential disruptions or industry downturns within the next 12 months. As at June 30, 2022, the Company is not subject to any externally imposed capital requirements.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting financial obligations as they come due. The Company manages liquidity risk through regular monitoring of capital requirements by preparing short-term and long-term cash flow forecasts for periods up to and greater than 12 months. The financing requirements of the Company are addressed through operating cash flows, financing under the Credit Facility, and/or the issuance of new equity instruments (refer to note 17).

The Company's ability to satisfy liquidity needs and meet future growth targets is dependent on cannabis retail continuing to be an essential service in the jurisdictions in which the Company operates, increasing revenues, improving profitability, and continued availability of financing under the Credit Facility to allow growth in its store base so as to continue to generate positive cash flows. Capital commitments related to growth are discretionary based on access and availability to capital, operating cash flows, and cash flow forecasts.

As the Company is in the early stages of its growth strategy, any capital shortfalls are supported by cash on hand, and the Credit Facility to ensure ongoing financial obligations can be met. As at June 30, 2022, the Company had \$6,220 of cash on hand (December 31, 2021 – \$10,527) and had \$5,500 available on its Credit Facility with Sundial (December 31, 2021 – \$5,000). As disclosed in note 6, the Company and Sundial agreed to increase the maximum principal borrowings under the Credit Facility by \$10,000 during the three months ended June 30, 2022, increasing the Company's maximum total principal borrowings from \$5,000 to \$15,000. Management believes that the Company's capital structure reflects the requirements of a business focused on profitable growth, both through the development

Nova Cannabis Inc.

Notes to the Condensed Interim Consolidated Financial Statements

Three and Six Months Ended June 30, 2022 and 2021

(Unaudited, in thousands of Canadian dollars except per common share data or unless otherwise specified)

of new cannabis stores, acquisitions, and other growth investments. Management continues to monitor the adequacy of the Company's capital structure and adjust it accordingly.

17 Subsequent event

On July 22, 2022, the Company announced the establishment of an at-the-market equity offering program (the "ATM Program") that allows the Company to issue up to \$20,000 of common shares from treasury to the public at the discretion of the Company and subject to regulatory requirements. Any common shares sold through the ATM program will be sold at prevailing market prices when issued in ordinary broker's transactions on the TSX, or another Canadian marketplace on which the common shares are listed, quoted, or otherwise traded. No common shares have been issued through the ATM Program to date.