

**NOVA NET LEASE REIT**

**CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)**

**MARCH 31, 2022**

**(In U.S. Dollars)**

**Nova Net Lease REIT**  
**Condensed Consolidated Statement of Financial Position**  
*(In US Dollars)*

	Note	March 31, 2022	December 31, 2021
		(Unaudited)	
<b>ASSETS</b>			
<b>Non-current assets:</b>			
Investment properties	4	\$ 10,400,000	\$ 10,400,000
Restricted cash		325,000	325,000
		<u>10,725,000</u>	<u>10,751,171</u>
<b>Current assets:</b>			
Deferred unit issuance costs		—	451,208
Prepays and other assets	3	366,407	79,000
Tenant receivable		100,208	133,612
Cash		2,506,901	354,863
Other current assets		33,528	—
		<u>3,007,044</u>	<u>1,018,683</u>
<b>TOTAL ASSETS</b>		<b><u>\$ 13,732,044</u></b>	<b><u>\$ 11,769,854</u></b>
<b>LIABILITIES AND UNITHOLDERS' EQUITY</b>			
<b>Non-current liabilities:</b>			
Refundable security deposits	14	\$ 334,370	\$ 328,024
Contingently redeemable Class B units	6, 14	8,848,889	10,000,000
		<u>9,183,259</u>	<u>10,328,024</u>
<b>Current liabilities:</b>			
Accounts payable and accrued liabilities	5	270,538	1,123,070
Provision for Class B liquidity discount	4	888,000	—
Other liabilities		—	108,333
		<u>1,158,538</u>	<u>1,231,403</u>
<b>Total Liabilities</b>		<b><u>\$ 10,341,797</u></b>	<b><u>\$ 11,559,427</u></b>
<b>Unitholders' Equity</b>		<b><u>\$ 3,390,247</u></b>	<b><u>\$ 210,427</u></b>
<b>TOTAL LIABILITIES AND UNITHOLDERS'</b>		<b><u>\$ 13,732,044</u></b>	<b><u>\$ 11,769,854</u></b>

*Subsequent Events (Note 15)*

*See accompanying notes to the condensed interim consolidated financial statements*

**Nova Net Lease REIT****Condensed Consolidated Statement of Loss and Comprehensive Loss (Unaudited)***(In US Dollars)*

	<u>Note</u>	<u>For the Three Months ended March 31, 2022</u>
<b>Revenues</b>		<b>\$ 388,655</b>
<b>Expenses and Other:</b>		
General and administrative	10	690,617
Finance cost	6	60,308
Fair value change – contingently redeemable Class B	6	(1,151,111)
Fair value change – investment properties	4	977,825
<b>Total Expenses and Other</b>		<b>577,639</b>
<b>Net Loss and Comprehensive Loss</b>		<b>\$ (188,984)</b>

*See accompanying notes to the condensed interim consolidated financial statements*

**Nova Net Lease REIT**  
**Condensed Consolidated Statement of Changes in Unitholders' Equity (Unaudited)**  
**For the Three Months ended March 31, 2022**  
*(In US Dollars)*

	Note	Number of Trust Units	Amount \$	Distributions	Equity Reserve	Net Loss and Comprehensive Loss	Total Unitholders' Equity
<b>Balance – December 31, 2021</b>		3,236,818	\$ 800,007	\$ —	\$ —	\$ (589,580)	\$ 210,427
Trust units issued related to the Offering	7	3,438,675	3,147,998	—	—	—	3,147,998
Unit-based compensation – Board grant	7,8	140,000	175,000	—	—	—	175,000
Unit-based compensation – options	8	—	—	—	23,610	—	23,610
Unit-based compensation – warrants	9	—	—	—	68,201	—	68,201
Distributions to unitholders	7	—	—	(46,005)	—	—	(46,005)
Net loss		—	—	—	—	(188,984)	(188,984)
<b>Balance, March 31, 2022</b>		6,815,493	\$ 4,123,005	\$ (46,005)	\$ 91,811	\$ (778,564)	\$ 3,390,247

*See accompanying notes to the condensed interim consolidated financial statements*

**Nova Net Lease REIT**  
**Condensed Consolidated Statement of Cash Flows (Unaudited)**  
*(In US Dollars)*

	Note	For the Three Months ended March 31, 2022
<b>Cash flow used in operating activities</b>		
Net loss		\$ (188,984)
Adjustments to reconcile net loss to net cash used in operating activities:		
Fair value adjustment on investment properties	4	977,825
Fair value adjustment on contingently redeemable Class B units	6	(1,151,111)
Unit-based compensation	8	67,360
Amortization of refundable security deposit liability		6,346
<b>Change in non-cash working capital:</b>		
Deferred unit issuance cost		451,208
Deferred rent receivable and tenant receivable		(30,250)
Prepays and other assets	3	(156,157)
Other current assets		(33,528)
Other current liabilities		(108,333)
Accounts payable	5	(852,532)
<b>Cash used in operating activities</b>		<b>(1,018,156)</b>
<b>Cash flow provided by financing activities:</b>		
Proceeds from IPO	7	4,259,750
Unit issuance costs		(1,043,551)
Distributions paid to unitholders	7	(46,005)
<b>Cash flow provided by financing activities:</b>		<b>3,170,194</b>
<b>Increase (decrease) in cash</b>		
		2,152,038
<b>Cash, beginning of period</b>		<b>354,863</b>
<b>Cash, end of period</b>		<b>\$ 2,506,901</b>
<b>Non-cash items in financing activities:</b>		
Prepaid balance of Board retainer unit grant		\$ 131,250
Issuance costs for units and warrants		\$ 106,795

*See accompanying notes to the condensed interim consolidated financial statements*

**Nova Net Lease REIT**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
*(In US Dollars)*

## **1. Nature of Operations**

Nova Net Lease REIT (the “REIT”) was formed on July 27, 2021, as a newly created, open-ended real estate investment trust established pursuant to a declaration of trust under the laws of the Province of Ontario, where one unit of the REIT was issued for \$10 in cash. The declaration of trust of the REIT was filed on SEDAR at [www.sedar.com](http://www.sedar.com) in conjunction with the filing of the final prospectus for the REIT’s initial public offering of trust units (the “Offering”) on the Canadian Securities Exchange (the “CSE”) on December 22, 2021. The REIT’s registered office is located at 181 Bay Street, Suite 1030, Toronto, Ontario, Canada, M5J 2T3.

### ***Reorganization***

Prior to September 1, 2021, the REIT had no material operations. On September 1, 2021, all of the outstanding shares of Verdant Growth Properties Corp. (“Verdant”) were exchanged for shares in the REIT on a 10 for 1 basis, making Verdant a wholly-owned subsidiary of the REIT (the “Share Exchange”). Verdant, a Delaware corporation, was formed on October 27, 2020, for the purpose of owning and leasing, on a triple-net basis, cannabis-related real estate assets in the United States (the “U.S.”), with the objective of becoming a listed company on the CSE. The REIT was formed to affect the cross-border structure whereby the REIT is classified as a U.S. corporation for U.S. federal income tax purposes pursuant to section 7874 of the United States Internal Revenue Code of 1986, as amended (the “Code”). As a result, it is permitted to elect to be treated as a real estate investment trust under the Code, notwithstanding it is organized as a Canadian entity.

The REIT is considered an umbrella partnership real estate investment trust (an “UPREIT”) for U.S. federal income tax purposes. Operations of the REIT will be conducted primarily through Nova Net Lease Operating LLC (the “Operating Partnership”), a subsidiary of Verdant, which was formed under the laws of the State of Delaware. At formation, the Operating Partnership was a single member LLC with Verdant owning 100% of the Class A Units.

The unaudited condensed interim consolidated financial statements as at and for the three months ended March 31, 2022 (the “Interim Financial Statements”) included herein are those of the REIT and its wholly-owned subsidiary, Verdant, which includes the activities of the Operating Partnership. The Share Exchange and resulting merger transaction did not constitute a business combination within the scope of IFRS 3 *Business Combinations* (“IFRS 3”), and accordingly has been accounted for as a pooling of interest. According to this method, the REIT prepared its 2021 audited financial statements in order to reflect as if the merger was in effect as of the date the two entities were under common control. The share capital and equity balances were adjusted on September 1, 2021 to reflect the Share Exchange transaction.

## **2. Summary of Significant Accounting Policies**

### ***Basis of preparation***

These Interim Financial Statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as issued by the International Accounting Standards Board (“IASB”). Accordingly, these Interim Financial Statements do not include all the financial statement disclosures required for annual financial statements and should be read in conjunction with the Company’s audited consolidated financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the IASB. In management’s opinion, the Interim Financial Statements reflect all the adjustments that are necessary for a fair presentation of the results for the interim period presented. These Interim Financial Statements have been prepared

**Nova Net Lease REIT**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
*(Amounts in US dollars)*

using the accounting policies and methods of computation as outlined in Note 2 of the consolidated financial statements for the year ended December 31, 2021. These Interim Financial Statements were approved by the Board of Trustees on May 26, 2022.

These Interim Financial Statements have been prepared on a going concern basis, which assumes the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the normal course of business. These Interim Financial Statements do not include any adjustments to the carrying amounts and classification of assets, liabilities and reported expenses that may otherwise be required if the going concern basis was not appropriate. Such adjustments could be material.

***Functional Currency***

The functional currency of the REIT, as determined by management, is the U.S. dollar. These Interim Financial Statements are presented in U.S. dollars.

***Basis of Consolidation***

The Interim Financial Statements include the accounts of the REIT and the subsidiaries that it controls as defined in IFRS 10 *Consolidated Financial Statements*. Control exists when the REIT has power over the investee, has exposure or rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns from the investee. These Interim Financial Statements comprise the financial statements of its wholly-owned subsidiary, Verdant, which includes the Operating Partnership. The financial statements of the subsidiaries are prepared for the same reporting period as the REIT using consistent accounting policies. All intercompany balances and transactions are eliminated upon consolidation. The following subsidiary entities are included in the Interim Financial Statements at March 31, 2022:

<b>Entity</b>	<b>Date of Formation</b>	<b>Owning Entity</b>	<b>Ownership %</b>
Verdant Growth Properties Corp	October 27, 2020	Nova Net Lease REIT	100% of Common Stock
Nova Net Lease Operating LLC	July 21, 2021	Verdant Growth Properties Corp 521 East Mosel LLC	100% of Class A Units 100% of Class B Units
Nova Kalamazoo LLC	July 27, 2021	Nova Net Lease Operating LLC	100% Sole Member
NNL Kalamazoo LP	November 5, 2021	Nova Kalamazoo LLC Nova Net Lease Operating LLC	0.01% General Partner 99.9% Limited Partner

***Common Control Transaction***

A business combination involving entities under common control is a business combination in which the combining entities are controlled by the same parties, both before and after the combination, and control is not transitory. Business combinations involving entities under common control are outside the scope of IFRS 3. IFRS provides no guidance on the accounting for these types of transactions. As a result, the REIT was required to develop an accounting policy for the Share Exchange transaction that occurred on September 1, 2021. The nature and intent of the business combination was to prepare for an initial public offering on the CSE. Accordingly, the insertion of the REIT as the parent entity was a necessary step in affecting the Canadian offering with U.S. assets. As this combination was not within the scope of IFRS 3, the combination of the entities under common control was accounted for as a pooling of interests to reflect the continuity of the business since the Share Exchange transaction on September 1, 2021.

***Critical Accounting Estimates and Judgments***

The accounting policies used in the preparation of these Interim Financial Statements are consistent with those of the REIT's audited financial statements for the year ended December 31, 2021. Please see note 2 – "Summary of Significant Accounting Policies" contained in the December 31, 2021 audited consolidated financial statements.

***Standards issued but not yet effective for the three months ended March 31, 2022***

In February 2021, the IASB published Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2). As a result of the amendment entities are now required to disclose its material accounting policy information instead of its significant accounting policies. The amendment includes explanatory paragraphs as to how the entity can identify material accounting policy information and provides examples of when accounting policy information is likely to be material. The amendments clarify that accounting policy information may be material as result of its nature, even if the related amounts are immaterial and that accounting policy information is material if users of an entity's financial statements would need it to understand other material information within the financial statements. Additionally, if an entity chooses to disclose immaterial accounting policy information, such information shall not obscure material accounting policy information. The amendments also clarify that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements. In addition, IFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information to support the amendments to IAS 1. The amendments are applied prospectively. The amendments to IAS 1 are effective for annual periods beginning on or after 1 January 2023. Earlier application is permitted. Once the entity applies the amendments to IAS 1, it is also permitted to apply the amendments to IFRS Practice Statement 2.

In February 2021 the IASB published *Definition of Accounting Estimates (Amendments to IAS 8)*. Amendments include a change in the definition of a change in accounting estimates being replaced with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty". The amendment clarifies that Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty. The IASB clarifies that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. Lastly, the amendment clarifies that a change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods. The amendments are effective for annual periods beginning on or after 1 January 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

***Impact of Covid-19***

In early 2020, an outbreak of the novel strain of coronavirus (COVID-19) emerged globally. As a result, there have been mandates from federal, state and local authorities resulting in an overall decline in economic activity. There have been no material impacts from COVID-19 on the Company's operations for the three months ended March 31, 2022.

**3. Prepaids and Other Assets**

The REIT's prepaids and other current assets consist of the following:

**Nova Net Lease REIT**

**Notes to the Condensed Interim Consolidated Financial Statements**

(Amounts in US dollars)

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Promissory note receivable	\$ 50,000	\$ 50,000
Prepaid expenses	316,407	29,000
<b>Total</b>	<b>\$ 366,407</b>	<b>\$ 79,000</b>

On October 27, 2021, the REIT executed a promissory note with its Chief Investment Officer, pursuant to which such individual utilized the proceeds received to subscribe to 100,000 units of the REIT. The promissory note matures on December 31, 2022, contains no prepayment penalty, carries an interest rate of 0.18% per annum, and payments can be offset against commissions earned on future acquisitions. The 100,000 REIT units were pledged as collateral. See Note 11, Related Party Transactions, for further information.

**4. Investment Properties**

A reconciliation of the carrying value for investment properties at the beginning and end of the financial period is set out below:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Investment properties, opening balance	\$ 10,400,000	\$ —
Acquisitions - November 24, 2021	—	10,000,000
Straight-line Rent Receivable	89,825	
Provision for Class B Liquidity Discount	888,000	
FV Adjustment	(977,825)	52,155
Transaction costs	—	347,845
<b>Total</b>	<b>\$ 10,400,000</b>	<b>\$ 10,400,000</b>

***Asset Acquisitions***

On November 24, 2021, the REIT acquired a 70,000 square foot specialized industrial cannabis facility, including 67,000 square feet of cultivation and 3,000 square feet of retail, in Kalamazoo, Michigan, under terms of a contribution agreement with Cloud Cannabis (“Cloud”) whereby Cloud agreed to contribute the real estate to the Operating Partnership in exchange for Redeemable Class B units in the Operating Partnership (the “Class B Units”) valued at \$10 million. Simultaneously with the closing of the acquisition, the operator of the cultivation facility entered into a triple-net lease with a wholly-owned subsidiary of the Operating Partnership with an initial term of 15 years and two 10-year extension options. Monthly rent began accruing upon entry into the lease agreement, but payment was deferred until the closing on the Offering, at which time the deferred rent became payable equally over a 12-month period.

Under terms of the contribution agreement with Cloud, the REIT had six months from the date of the Offering to raise \$20.0 million in financings to avoid issuing an additional 800,000 Contingently Redeemable Class B Units to unitholders (the “Liquidity Discount”) as additional consideration for its acquisition of the Kalamazoo facility. Due to the uncertainty of being able to raise an incremental \$15,740,250 (\$20.0 million less the proceeds from the Offering of \$4,259,750) by July 3, 2022, a provision for the additional 800,000 Class B Units required to fund the Liquidity Discount has been reflected in the financial statements in the amount of \$888,000. The provision was calculated using the weighted average trading price of the underlying REIT units for the three months ended March 31, 2022 (\$1.11).

## Nova Net Lease REIT

### Notes to the Condensed Interim Consolidated Financial Statements

(Amounts in US dollars)

The REIT records investment property at cost net of any additional liabilities or assets acquired, plus transaction costs including professional fees, legal fees and commissions. At each reporting period, the REIT adjusts the investment property to fair value.

The REIT used an external appraisal in conjunction with the acquisition of the property in November 2021 to determine the estimated fair value. The appraiser evaluated the property using several valuation methods, and the income capitalization approach was given the greatest weight in the conclusion of value in the appraiser's report, as the value indication from the income capitalization approach is supported by market data regarding income, expenses and required rates of return, and a typical investor would place greatest reliance on the income capitalization approach. The resulting fair value was \$10.4 million. Due to the short period of time between the appraisal date and the balance sheet date, management concluded there had been no change in the fair value of the property at December 31, 2021. The external appraiser provided an updated valuation as at March 31, 2022, indicating no change in value.

The fair value of investment property is most sensitive to changes in capitalization rates as applied to rental revenue or net operating income. Changes in capitalization rates would result in a change to the fair value of the REIT's investment property. Set out below is the impact of a 25 basis-point increase or decrease in the weighted average capitalization rate on the carrying value of investment properties in dollar and percentage terms as at March 31, 2022:

<b>Basis Point Change</b>	<b>\$ Increase (Decrease)</b>	<b>% Increase (Decrease)</b>
25-basis point increase	\$ (203,922)	(1.96)%
25-basis point decrease	212,245	2.04 %

#### 5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as at March 31, 2022 and December 31, 2021 are as follows:

	<b>March 31, 2022</b>	<b>December 31, 2021</b>
Accounts Payable	\$ 108,444	\$ 903,406
Accrued Liabilities	162,094	219,664
<b>Total</b>	<b>\$ 270,538</b>	<b>\$ 1,123,070</b>

#### 6. Contingently Redeemable Class B Units

On November 24, 2021, the Operating Partnership issued 8,000,000 Class B Units valued at \$10 million (Note 4). The fair value on November 24, 2021, was calculated using the anticipated Offering price for REIT units, as the Class B Units can be redeemed for REIT units. The Class B Units have been classified as a liability in accordance with IFRS. Class B Units are measured at fair value with any changes in fair value recorded in profit or loss. As at March 31, 2022, the fair value of the Class B Units was calculated using the weighted average trading price of the REIT Units for the period January 4 through March 31, 2022 of \$1.11. Because of the low trading volume of the REIT units during the quarter, it was determined that the closing price on March 31, 2022, was not a proper indicator of the fair value of the liability.

The following table presents the outstanding Class B Units and the changes in fair value of the Class B Units for the three months ended March 31, 2022:

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*(Amounts in US dollars)*

	<b>Contingently Redeemable Class B Units</b>	
	<b>B Units</b>	<b>Value</b>
<b>Contingently Redeemable Class B Units, December 31, 2021</b>	8,000,000	\$ 10,000,000
Fair value adjustment	—	(1,151,111)
<b>Contingently Redeemable Class B Units, March 31, 2022</b>	<b>8,000,000</b>	<b>\$ 8,848,889</b>

The holders of the Class B Units receive distributions on the same per unit basis as REIT unitholders. Distributions on the Class B Units are recorded as finance cost. For the three months ended March 31, 2022, distributions of \$0.00225 per unit were declared each month and paid on or about the 15<sup>th</sup> of the following month. Distributions payable at March 31, 2022 were \$18,000.

## 7. Unitholders' Equity

The REIT is authorized to issue an unlimited number of units. Units are ordinary trust units of the REIT, each of which represents a unitholders' proportionate undivided beneficial interest and voting rights in the REIT. Unit activity for the three months ended March 31, 2022 was as follows:

	<b>Number of Units</b>	<b>Value</b>
<b>Units outstanding, December 31, 2021</b>	3,236,818	\$ 800,007
Units issued at the Offering, net of issuance costs	3,407,800	3,109,404
Units issued to financial advisor	30,875	38,594
Units granted to Board of Trustees	140,000	175,000
<b>Units outstanding, March 31, 2022</b>	<b>6,815,493</b>	<b>\$ 4,123,005</b>

In January 2022, the REIT completed its Offering, issuing 3,407,800 trust units, including the overallotment, at a price of \$1.25 per unit. The Offering raised gross proceeds of \$4,259,750. On January 4, 2022, the units began trading on the CSE under the symbol "NNL.U". As a fee to its financial advisor and the annual retainer for the Board of Trustees, the REIT granted 30,875 and 140,000 units, respectively.

The REIT declared distributions of \$0.00225 per unit per month for unitholders of record on the last day of each month, payable on or about the 15<sup>th</sup> of the following month. Distributions payable at March 31, 2022 were \$15,335.

## 8. Unit-Based Compensation

### *Omnibus Equity Incentive Plan*

On December 22, 2021, the REIT adopted the Omnibus Equity Incentive Plan (the "Plan") for the purposes of (i) advancing the interests of the REIT by enhancing the ability of the REIT and its subsidiaries to attract, motivate and retain employees, trustees, directors and consultants, (ii) rewarding such persons for their sustained contributions and (iii) encouraging such person to take into account the long-term corporate performance of the REIT. Under the Plan, the Board of Trustees may award options, restricted units, performance units, deferred units or other unit-based awards. Each award is governed by an award agreement that provides the terms and conditions on which an award has been granted. At any given time, the maximum number of units issuable under the Plan shall be determined by the Board of Trustees, but shall not exceed, in the aggregate, 15% of the number of REIT units then outstanding, assuming the redemption of all Class B Units, on a grant date.

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(Amounts in US dollars)

Equity-settled share-based payments to trustees, officers and employees are measured at the fair value of the equity instruments at the grant date and are recognized as an expense over the relevant vesting periods with a corresponding credit to equity reserve. Equity-settled share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments granted, if it is determined that the fair value of the goods or services received cannot be reliably measured. The fair value of equity-settled share-based payments to non-employees is recorded as an expense at the date the goods or services are received with a corresponding credit to options reserve or warrants reserve.

#### Restricted Units

On January 4, 2022, the REIT granted 140,000 restricted units to its Board of Trustees as compensation for their annual retainer. The restricted units are recognized in income to reflect the services rendered over the year. The unit price on the date of grant was \$1.25 per unit, for a total award value of \$175,000.

#### Option Units

On January 4, 2022, the REIT granted a total of 320,000 time-vested options to its employees. The options vest over time, 1/3 on each anniversary date, and have a 5-year life. The grant date stock price was \$1.25 per unit.

On January 4, 2022, the REIT granted a total of 225,000 performance-vested options to certain of its employees. The options have a performance criterion and are earned upon the earlier of (i) the date upon reaching the performance condition and (ii) December 31, 2022. Once earned, the options vest over time, 1/3 on each anniversary date of reaching the performance criteria and have a 5-year life. The grant date stock price was \$1.25 per unit.

For the three months ended March 31, 2022, stock option activity of the REIT was as follows:

	Number of Option Units	Exercise price	Remaining contractual life (years)
Outstanding at January 1, 2022	—	\$ —	
Grant of Time-vested Options	320,000	1.25	4.75
Grant of Performance-vested Options	225,000	1.25	4.75
Exercised	—	—	
Expired / Forfeited	—	—	
Outstanding at March 31, 2022	<u>545,000</u>	<u>\$ 1.25</u>	<u>4.75</u>
<b>Vested and exercisable March 31, 2022</b>	<u>—</u>	<u>—</u>	<u>—</u>

Unit-based compensation expense recognized for both employees and non-employees was as follows, and is reflected in general and administrative expense:

	March 31, 2022
Salaries and Benefits	\$ 23,610
Board of Trustee Fees	43,750
Total Unit-based Compensation Expense	<u>\$ 67,360</u>

The grant date fair value for stock options granted during the three months ended March 31, 2022 was \$0.57 per unit. The Company uses the Black-Scholes option pricing model to estimate the fair value of the option awards with the following assumptions for the three months ended March 31, 2022:

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<b>Category</b>	<b>Assumption</b>
Risk-free interest rate	1.02%
Expected life (years)	5
Expected volatility	52.0%
Stock price	\$ 1.25

At March 31, 2022, total unrecognized compensation cost related to non-vested options was approximately \$285,218 and is expected to be recognized over the remaining weighted-average vesting period.

## 9. Warrants

In January 2022, in connection with the Offering, the REIT issued warrants to its underwriters to purchase up to 171,348 REIT units. The warrants contain an exercise price of \$1.25 per unit, were fully vested at issuance and have a two-year life. The REIT ascribed a value of \$68,201 to the warrants using an option pricing model with the following assumptions: volatility of 59% and a risk-free rate of 0.77% at January 4, 2022 and 1.18% at January, 31, 2022.

Warrant activity for the three months ended March 31, 2022 was as follows:

	<b>Warrant units outstanding</b>	<b>Exercise price</b>	<b>Remaining life</b>
Outstanding at January 1, 2022	—	\$ —	—
Granted	171,348	1.25	1.75
Exercised	—	—	—
Exchanged for common stock	—	—	—
Outstanding at March 31, 2022	171,348	\$ 1.25	—
Exercisable at March 31, 2022	171,348	\$ 1.25	1.75

## 10. General and Administrative Expenses

For the three months ended March 31, 2022, general and administrative expenses consisted of:

<b>Description</b>	<b>For the Three Months Ended March 31, 2022</b>
Salaries and Benefits	\$ 187,927
Accounting	143,614
Legal	115,885
Board of Trustee Fees	88,750
Consulting	45,000
Insurance	47,778
Other	61,663
<b>Total</b>	<b>\$ 690,617</b>

## **11. Related Party Transactions**

In October 2020, Verdant entered into an agreement to engage a financial and strategic advisor whose services will continue for a period of 24 months following the closing of the Offering, to provide guidance with respect to capital raising strategy, and to provide corporate office space and administrative support following the closing of the Offering. Certain trustees of the REIT and directors of its subsidiaries are associated with the advisor, and will participate financially from fees earned by the advisor as a result of successful private financings and capital markets transactions, including the first asset acquisition, the Offering, and the monthly work fee. Upon the closing of the first acquisition on November 24, 2021, fees, payable 50% in cash and 50% in REIT units, were earned and became payable, and were reflected as issuance costs related to the Class B Units issued in connection with the acquisition. Upon the closing of the Offering in January 2022, fees, payable approximately 50% in cash and 50% in REIT units, were earned and became payable, and were reflected as issuance costs related to the Offering.

## **12. Commitment and Contingencies**

The REIT is subject to claims and litigation in the ordinary course of business. Management does not believe that any such claim or litigation will have a material adverse effect on the business, assets, or results of operations of the REIT. As of March 31, 2022, there were no outstanding claims or litigation.

## **13. Capital Management**

The REIT's policy is to maintain an appropriate capital base to support ongoing operations, maintain creditor and market confidence and sustain future developments of the business. Capital consists of cash and cash equivalents, Class B Units and Unitholders' equity. The REIT monitors capital using tools designed to anticipate cash needs and to maintain adequate working capital, while also making appropriate distributions to the unitholders on a regular basis.

## **14. Financial Instruments and Risk Management**

### ***Financial Instruments***

The carrying values of the REIT's short-term financial assets and liabilities approximate their fair values due to their short periods to maturity.

### ***Fair Value Hierarchy***

Financial instruments recorded at fair value are classified using a fair value hierarchy that reflects the significance of inputs used in making the measurements. The hierarchy is summarized as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets and liabilities

Level 2 – inputs that are observable for the asset or liability, either directly (prices) or indirectly (derived from prices) from observable market data

Level 3 – inputs for assets and liabilities not based upon observable market data

The following table summarizes the categories and fair values of the REIT's financial assets and liabilities.

**Nova Net Lease REIT**  
**Notes to the Condensed Interim Consolidated Financial Statements**  
*(Amounts in US dollars)*

	Level	March 31, 2022	December 31, 2021
<b>Financial Assets and Liabilities</b>			
Contingently Redeemable Class B Units	2	\$ 8,848,889	\$ 10,000,000
Refundable Security Deposits	3	\$ 334,370	328,024

The following summarizes the significant methods and assumptions used in estimating fair values of the REIT's financial assets and liabilities, excluding financial assets and liabilities carried at amortized cost where carrying value approximates fair value:

(i) Contingently Redeemable Class B Units: the fair value of the Contingently Redeemable Class B Units is estimated based on the weighted average price of the REIT Units during the quarter (Level 2).

(ii) Refundable Security Deposits: the REIT fair valued the refundable security deposit and then subsequently amortized the cost using the effective interest method. The value is based upon a non-direct price (Level 3).

The carrying values of the REIT's short-term financial assets and liabilities are carried at amortized cost which approximate their fair values due to their short periods to maturity.

***Financial Risk Factors***

The REIT's risk exposure and the impact on the REIT's financial assets and liabilities are summarized below:

*Credit risk*

Financial assets and liabilities that potentially subject the REIT to significant concentrations of credit risk consist principally of cash and cash equivalents and tenant receivables. The REIT regularly monitors its credit risk exposure and takes steps to mitigate the likelihood of these exposures resulting in actual loss. Credit risk arises from the possibility that tenants in investment properties may not fulfill their lease or contractual obligations. The REIT mitigates its credit risks by attracting tenants of sound financial standing. Cash carries minimal credit risk as all funds are maintained with reputable financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

*Liquidity risk*

The REIT is exposed to liquidity risk which is the risk of not meeting its financial obligations as they come due. The REIT constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. The REIT had working capital of \$1,848,506 at March 31, 2022, and a working capital deficit of \$212,720 at December 31, 2021.

**15. Subsequent Events**

***Separation Agreement***

On May 15, 2022, the REIT's Chief Executive Officer resigned his position and entered into a separation agreement (the "**Separation Agreement**") with the REIT. The terms of the Separation Agreement include total cash compensation of \$278,000, payable ratably over 12 months. Additionally, 100,000 time-vested options with an exercise price of \$1.25 became fully vested, with a remaining life of one year. Performance-vested options were unearned and therefore, cancelled.

**Nova Net Lease REIT**

**Notes to the Condensed Interim Consolidated Financial Statements**

*(Amounts in US dollars)*

***Issuance of Options and Warrants***

On May 16, 2022, the REIT granted to its incoming Chief Executive Officer 150,000 performance vested options under the Plan. The exercise price of each option is \$1.25 per unit. Upon satisfaction of the performance condition, the units vest 1/3 on each anniversary date.