



RE ROYALTIES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2020 AND 2019

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE TO READER

In accordance with National Instrument 51-102 subsection 4.3 (3), management of the Company advises that the Company's auditors have not performed a review of these interim financial statements.

RE Royalties Ltd.

Condensed Consolidated Interim Statements of Financial Position

(Unaudited – Expressed in Canadian Dollars)

	Note	September 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Secured loans and royalty interest	4	\$ 8,386,949	\$ 7,492,267
Investment in an associate	5	559,950	563,770
		8,946,899	8,056,037
Current assets			
Secured loans and royalty interest	4	8,678,852	5,173,483
Amounts receivable and prepaid expenses	6	388,376	862,854
Cash and cash equivalents	3	1,952,978	4,048,057
		11,020,206	10,084,394
TOTAL ASSETS		\$ 19,967,105	\$ 18,140,431
EQUITY			
Share capital	9(b)	\$ 22,506,763	\$ 22,241,137
Reserves	9(c)	732,201	632,219
Accumulated deficit		(5,814,311)	(5,279,574)
		17,424,653	17,593,782
LIABILITIES			
Non-current liabilities			
Subscriptions for Green Bonds	13(b)	386,264	-
Convertible notes	8(a)	1,561,822	-
		1,948,086	-
Current liabilities			
Convertible note	8(b)	498,499	487,914
Trade payables and accrued liabilities	7	95,867	58,735
		594,366	546,649
Total liabilities		2,542,452	546,649
TOTAL EQUITY AND LIABILITIES		\$ 19,967,105	\$ 18,140,431

Events after the reporting period (note 13)

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

These condensed interim financial statements are approved for issuance on November 25, 2020 and are signed on the Company's behalf by the following:

/s/ Bernard Tan

Bernard Tan
Director

/s/ Rene Carrier

Rene Carrier
Director

RE Royalties Ltd.

Condensed Consolidated Interim Statements of Comprehensive Income (Loss)

(Unaudited – Expressed in Canadian Dollars, except for weighted average number of common shares)

	Note	Three months ended September 30,		Nine months ended September 30,	
		2020	2019	2020	2019
Revenue and income					
Royalty revenue	4	\$ 187,275	\$ 142,016	\$ 580,773	\$ 286,081
Royalty buyout	4	451,915	–	451,915	–
Finance income	4	270,161	267,525	912,475	756,995
		909,351	409,541	1,945,163	1,043,076
Amortization and depletion					
Amortization of transaction cost	4	–	37,971	7,521	126,474
Depletion of royalty interest	4	71,834	46,656	205,712	76,489
		(71,834)	(84,627)	(213,233)	(202,963)
Gross profit		837,517	324,914	1,731,930	840,113
Gain on revaluation of financial asset at FVTPL	4(e)	38,000	22,887	149,110	94,447
Gross profit and changes in fair value of financial assets		875,517	347,801	1,881,040	934,560
Expenses/(recoveries)					
Rent and information technology		18,900	14,962	57,600	44,100
Legal		–	–	–	1,099
Regulatory		15,383	3,414	37,921	24,163
Audit and audit related fees		33,705	–	112,519	73,236
Administration		73,513	51,088	227,113	184,369
Donations		–	–	50,000	25,000
Marketing and stakeholder communication		85,528	65,685	185,481	161,960
Consulting		82,829	33,218	247,502	33,218
Wages and benefits		132,107	132,201	397,546	363,720
Equity-settled share-based payments	9(c)	444	12,054	9,428	84,248
Cost recoveries	5	(9,299)	(26,248)	(13,465)	(62,917)
		(433,110)	(286,374)	(1,311,645)	(932,196)
Other items					
Finance expenses		58,738	12,129	159,261	35,758
Share of loss of an associate	5	4,050	13,904	15,300	46,568
Foreign exchange (gain) loss		(7,366)	(49,741)	(40,571)	122,848
		(55,422)	23,708	(133,990)	(205,174)
Net income (loss)		\$ 386,985	\$ 85,135	\$ 435,405	\$ (202,810)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to net income					
Foreign exchange translation difference	5	(10,520)	6,602	11,480	(24,198)
Total other comprehensive income (loss)		(10,520)	6,602	11,480	(24,198)
Total comprehensive income (loss)		\$ 376,465	\$ 91,737	\$ 446,885	\$ (227,008)
Basic and diluted income (loss) per share	11	\$ 0.01	\$ 0.00	\$ 0.01	\$ (0.01)
Weighted average number of common shares outstanding	11	32,402,367	32,171,389	32,248,944	32,153,081

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

RE Royalties Ltd.

Condensed Consolidated Interim Statements of Changes in Equity

(Unaudited – Expressed in Canadian Dollars, except for number of shares)

	Note	Share capital		Reserves				Accumulated deficit	Total equity
		Number of shares	Amount	Equity-settled share-based payments	Share purchase warrants	Convertible note – conversion option	Foreign currency translation reserve		
Balance at January 1, 2019		32,111,889	\$ 22,181,863	\$ 433,190	\$ 54,300	\$ 26,911	\$ 99,400	\$ (3,902,368)	\$ 18,893,296
Net loss		-	-	-	-	-	-	(202,810)	(202,810)
Other comprehensive loss		-	-	-	-	-	(24,198)	-	(24,198)
Total comprehensive loss		-	-	-	-	-	(24,198)	(202,810)	(227,008)
Issuance of common shares upon warrants exercised at \$0.30	9(b)	59,500	59,274	-	(41,424)	-	-	-	17,850
Equity-settled share-based payments	9(c)	-	-	84,248	-	-	-	-	84,248
Distribution to shareholders	9(d)	-	-	-	-	-	-	(965,142)	(965,142)
Balance at September 30, 2019		32,171,389	\$ 22,241,137	\$ 517,438	\$ 12,876	\$ 26,911	\$ 75,202	\$ (5,070,320)	\$ 17,803,244
Balance at January 1, 2020		32,171,389	\$ 22,241,137	\$ 528,183	\$ 12,876	\$ 26,911	\$ 64,249	\$ (5,279,574)	\$ 17,593,782
Net income		-	-	-	-	-	-	435,405	435,405
Other comprehensive income		-	-	-	-	-	11,480	-	11,480
Total comprehensive income		-	-	-	-	-	11,480	435,405	446,885
Convertible note – equity component	8(a)	-	-	-	-	87,000	-	-	87,000
Equity-settled share-based payments	9(c)	-	-	9,428	-	-	-	-	9,428
Distribution to shareholders	9(d)	-	-	-	-	-	-	(970,142)	(970,142)
Shares issued upon exercise of warrants	9(c)	500,000	250,000	-	-	-	-	-	250,000
Reallocation of reserve relating to warrants exercised	9(c)	-	5,000	-	(5,000)	-	-	-	-
Shares issued upon exercise of options	9(c)	7,700	7,700	-	-	-	-	-	7,700
Reallocation of reserve relating to options exercised	9(c)	-	2,926	(2,926)	-	-	-	-	-
Balance at September 30, 2020		32,679,089	\$ 22,506,763	\$ 534,685	\$ 7,876	\$ 113,911	\$ 75,729	\$ (5,814,311)	\$ 17,424,653

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

RE Royalties Ltd.

Condensed Consolidated Interim Statements of Cash Flows

(Unaudited – Expressed in Canadian Dollars)

	Note	Nine months ended September 30,	
		2020	2019
Operating activities			
Net income (loss)		\$ 435,405	\$ (202,810)
Adjustments for:			
Amortization of transaction costs	4	7,521	126,474
Depletion of royalty interests	4	205,712	76,489
Interest received, net of (accretion and accrued interest) on secured loans	4	59,528	(337,978)
Gain on revaluation of financial asset at FVTPL	4(e)	(45,267)	8,256
Finance expenses	8	159,261	35,758
Equity-settled share-based payments	9(c)	9,428	84,248
Share of loss of an associate	5	15,300	46,568
Exchange loss upon reclassification of restricted cash	3	-	81,480
Unrealized exchange loss on cash held	3	(9,900)	20,173
Changes in working capital items:			
Amounts receivable and prepaid expenses		474,474	(502,519)
Trade payables and accrued liabilities		37,132	(276,306)
Cash provided by (used in) operating activities		1,348,594	(840,167)
Investing activities			
Restricted cash	3	-	3,738,000
Acquisition of royalty interests and secured loan	4	(4,627,545)	(1,871,864)
Loan advanced and acquisition of royalty interest	4(c)	-	(5,000,000)
Proceed from repayment of secured loan	4(f)	-	57,413
Cash distribution received from an associate	5	-	294,580
Deferred transaction costs		-	6,650
Cash used in investing activities		(4,627,545)	(2,775,221)
Financing activities			
Cash distribution to shareholders	9(d)	(970,142)	(643,428)
Proceeds from exercise of warrants	9(c)	250,000	17,850
Proceeds from exercise of options	9(c)	7,700	-
Proceeds from issuance of convertible notes, net of costs	8(a)	1,524,647	-
Subscriptions for Green Bonds	13(b)	386,264	-
Interest paid		(24,497)	(31,451)
Cash provided by (used in) financing activities		1,173,972	(657,029)
Decrease in cash and cash equivalents		(2,104,979)	(4,272,417)
Effects of exchange rate fluctuations on cash held	3	9,900	(20,173)
Cash and cash equivalents, opening balance		4,048,057	8,859,907
Cash and cash equivalents, closing balance		\$ 1,952,978	\$ 4,567,317

Supplemental cash flow information (note 3)

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

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

1. NATURE OF OPERATIONS

RE Royalties Ltd., (“RER” or the “Company”) is a public company whose common shares are listed on the TSX Venture Exchange (“TSXV”), under the trading symbol “RE”. The Company was incorporated on November 2, 2016 under the laws of the Province of British Columbia, Canada. The address of the Company’s corporate office is 15th Floor, 1040 West Georgia Street, Vancouver, BC, V6E 4H1.

The Company is primarily engaged in the acquisition of revenue-based royalties from renewable energy generation facilities by providing a non-dilutive royalty financing solution to privately-held and publicly-traded renewable energy generation and development companies.

These condensed consolidated interim financial statements (the “Financial Statements”) are comprised of RER and its wholly-owned subsidiary, RE Royalties (Canada) Ltd. (“RER Canada”) (together referred to as the “Company” or the “Group”) and are prepared for the three and nine months ended September 30, 2020 and 2019.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

These Financial Statements have been prepared on a going concern basis in accordance with IAS 34, Interim Financial Reporting (“IAS 34”), as issued by the International Accounting Standards Board (“IASB”). These Financial Statements do not include all of the information and footnotes required by International Financial Reporting Standards (“IFRS”) for complete financial statements for year-end reporting purposes. These Financial Statements should be read in conjunction with the Company’s consolidated financial statements as at and for the year ended December 31, 2019, which were filed under the Company’s profile on SEDAR at www.sedar.com. Accounting policies applied herein are the same as those applied in the Company’s annual financial statements.

Results for the current reporting period are not necessarily indicative of future results. The Company earns royalty revenue from several renewable power generation sources, which exhibit seasonal behaviors individually but tend to counterbalance each other in a well-diversified portfolio. For instance, wind power generation is stronger in winter than in summer. The opposite is true for solar power generation.

(b) *Basis of presentation and consolidation*

These Financial Statements have been prepared on a historical cost basis except for the loan to Aeolis Wind Power Corporation (note 4(a)) which is recorded at fair value. In addition, these Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

These Financial Statements include the financial statements of the Company and its wholly-owned subsidiary; namely: RE Royalties (Canada) Ltd.

Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee); exposure, or rights, to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns.

Intra-group balances and transactions, including any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the Financial Statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Company's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(c) Significant accounting estimates and judgements

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

There was no change in the use of estimates and judgments during the current period as compared to those described in Note 2 in the Company's consolidated financial statements for the year ended December 31, 2019.

(d) Operating segments

As the Company operates as a single segment, the Financial Statements should be read as a whole for the results of this single reporting segment. At September 30, 2020 and December 31, 2019, except for the royalty interest in renewable assets in Romania (note 4(b)) all of the Company's non-current non-financial assets were held in Canada.

The following is a breakdown of the Company's royalty revenue and finance income by geographical areas:

	Royalty Revenue	Royalty Buyout	Finance Income	Total
Nine months ended September 30, 2020				
Europe	\$ 130,758	\$ 46,758	\$ 273,264	\$ 450,780
North America	450,015	405,157	639,211	1,494,383
Total	\$ 580,773	\$ 451,915	\$ 912,475	\$ 1,945,163

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Royalty Revenue	Royalty Buyout	Finance Income	Total
Nine months ended September 30, 2019				
Europe	\$ 77,493	\$ –	\$ 346,222	\$ 423,715
North America	208,588	–	410,773	619,361
Total	\$ 286,081	\$ –	\$ 756,995	\$ 1,043,076

3. CASH AND CASH EQUIVALENTS

	September 30,		December 31,	
	2020		2019	
Components of cash and cash equivalents:				
Cash held in business accounts				
Denominated in Canadian Dollars	\$	1,483,999	\$	784,050
Denominated in US Dollars		468,979		3,264,007
Total	\$	1,952,978	\$	4,048,057

Supplemental cash flow information:	Nine months ended September 30,			
	2020		2019	
Interest received				
Interest received on secured loan classified in operating activities	\$	953,622	\$	270,510
Interest on cash and cash equivalent classified in operating activities		18,381		167,722
Total	\$	972,003	\$	438,232

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

4. SECURED LOANS AND ROYALTY INTERESTS

	September 30, 2020	December 31, 2019
Secured Loans – Amortized Cost		
Jade Power (note 4(a))	\$ 3,442,721	\$ 3,784,268
OntarioCo (note 4(c))	5,135,127	5,074,789
Scotian Windfields (note 4(d))	3,153,793	–
	11,731,641	8,859,057
Secured Loans – FVTPL		
Aeolis (note 4(e))	1,136,072	1,090,805
Royalty Interest		
Jade Power (note 4(a))	663,730	696,373
Northland Power Inc. (note 4(b))	1,701,694	1,799,869
OntarioCo (note 4(c))	297,982	219,645
Scotian Windfields (note 4(d))	1,534,682	–
Belltown (note 4(f)) (carried at a nominal value)	–	1
	4,198,088	2,715,888
Total	\$ 17,065,801	12,665,750
Non-current portion	\$ 8,386,949	\$ 7,492,267
Current portion	8,678,852	5,173,483
Total	\$ 17,065,801	\$ 12,665,750

The continuity of secured loans for the nine months ended September 30, 2020 is as follows:

	Jade Power (note 4(a))	OntarioCo (2019-Loan) (note 4(c))	OntarioCo (2020-Loan) (note 4(c))	Scotian Windfields (note 4(d))	Total
Loan					
Beginning balance	\$ 3,776,747	\$ 5,074,789	\$ –	\$ –	\$ 8,851,536
Fair value at initial recognition	–	–	4,910,714	3,028,918	7,939,632
Accretion and accrued interest	202,216	175,211	224,413	221,210	823,050
Capitalization of expenses/fees	346,758	–	–	–	346,758
Cash payments received	(883,000)	(250,000)	–	(96,335)	(1,229,335)
Loan refinanced	–	(5,000,000)	–	–	(5,000,000)
	\$ 3,442,721	\$ –	\$ 5,135,127	\$ 3,153,793	\$ 11,731,641

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Jade Power (note 4(a))	OntarioCo (2019-Loan) (note 4(c))	OntarioCo (2020-Loan) (note 4(c))	Scotian Windfields (note 4(d))	Total
Transaction cost					
Beginning balance	\$ 7,521	\$ -	\$ -	\$ -	\$ 7,521
Amortization	(7,521)	-	-	-	(7,521)
	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying amount	\$ 3,442,721	\$ -	\$ 5,135,127	\$ 3,153,793	\$ 11,731,641

The continuity of secured loans for the nine months ended September 30, 2019 is as follows:

	Jade Power (note 4(a))	OntarioCo (note 4(c))	Belltown (note 4(f))	Total
Loan				
Beginning balance	\$ 3,596,662	\$ 4,772,727	\$ 57,386	\$ 8,426,775
Accretion and accrued interest	346,224	181,763	61,295	589,282
Cash payments received	(190,000)	-	(118,681)	(308,681)
	\$ 3,752,886	\$ 4,954,490	\$ -	\$ 8,707,376
Transaction cost				
Beginning balance	\$ 154,164	\$ -	\$ 24,947	\$ 179,111
Cost recovery	-	-	(6,674)	(6,674)
Amortization	(108,202)	-	(18,273)	(126,475)
	\$ 45,962	\$ -	\$ -	\$ 45,962
Carrying amount	\$ 3,798,848	\$ 3,798,848	\$ -	\$ 8,753,338

The continuity of royalty interest for the nine months ended on September 30, 2020 and 2019 is as follows:

	Cost			Depletion			Carrying Amount
	Beginning balance	Addition/ (Disposal)	Ending Balance	Beginning balance	Charge for the period	Ending Balance	
September 30, 2020							
Jade Power	\$ 826,944	\$ -	\$ 826,944	\$ 130,571	\$ 32,643	\$ 163,214	\$ 663,730
Northland	1,871,864	-	1,871,864	71,995	98,175	170,170	1,701,694
OntarioCo	227,272	89,289	316,561	7,626	10,953	18,579	297,982
Scotian Windfields	-	1,598,626	1,598,626	-	63,944	63,944	1,534,682
Belltown ⁽¹⁾	1	(1)	-	-	-	-	-
Total	\$2,926,081	\$1,687,914	\$4,613,995	\$ 210,192	\$ 205,715	\$ 415,907	\$4,198,088

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

	Cost			Depletion			Carrying Amount
	Beginning balance	Addition/ (Disposal)	Ending Balance	Beginning balance	Charge for the period	Ending Balance	
September 30, 2019							
Jade Power	\$ 826,944	\$ -	\$ 826,944	\$ 87,047	\$ 32,643	\$ 119,690	\$ 707,254
Northland	-	1,871,864	1,871,864	-	39,270	39,270	1,832,594
OntarioCo	-	227,272	227,272	-	4,576	4,576	222,696
Belltown ⁽ⁱ⁾	-	1	1	-	-	-	1
	\$ 826,944	\$ 2,099,137	\$ 2,926,081	\$ 87,047	\$ 76,489	\$ 163,536	\$ 2,762,545

(i) Additionally, the Company retained a 1% gross revenue royalty interest in the Rippey Project that was carried at a nominal value in these Financial Statements before it was bought back in September 2020 (note 4(f)).

(a) Jade Power Trust

In January 2017, the Company provided Jade Power Trust (“Jade Power”; formerly Blockchain Power Trust) a three-year, non-revolving secured loan (the “Jade Power Loan”) and received a twenty-year gross revenue royalty (the “Jade Power Royalty”) on certain of Jade Power’s renewable energy generation assets.

Effective January 2020, the Jade Power Loan was extended, at Jade Power’s option, for the fourth year.

In June 2020, the Jade Power Loan and the Jade Power Royalty were modified as follows:

- Certain legal expenses and fees in the amount of \$346,758 that were payable to the Company by Jade Power were capitalized as part of the Jade Power Loan. Pursuant to the Jade Power Loan, as modified, Jade Power made a cash payment of \$750,000 in June 2020 and additional cash payments totaling \$1,750,000 after the end of the reporting period in October 2020 and November 2020 against the principal sum of the Jade Power Loan. Jade Power is required to repay the remaining balance of the Jade Power Loan in full by December 31, 2020.
- The Company released its royalty interest and collateral on the Suha hydro project with ceased operations. The rate of royalty on the remaining renewable energy generation assets subject to the Jade Power Royalty was reduced from 1.14% to 1.05% whereas the definition of gross revenue was revised to exclude any power balancing adjustments. The amount capitalized as part of the Jade Power Loan, as modified, includes \$46,758 representing a compensation for the Company to release its royalty interest and collateral on the Suha hydro project.

(b) Northland Power Inc.

In June 2019, the Company acquired a portfolio of gross revenue royalties on four separate operational solar parks (“Ontario Solar Projects”) in Ontario, Canada, from Fresh Air Energy Inc. for \$1,871,864. The Ontario Solar Projects are owned and operated by Northland Power Inc. and have a generation capacity of 40 MW and have been in operation since 2013.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

(c) *OntarioCo*

In May 2019, the Company entered into a secured loan (“2019-Loan”) and royalty transaction with a private group of companies in Ontario (“OntarioCo”) on 49 roof-top solar projects (“Roof-Top Solar Project Portfolio”).

In June 2020, the Company acquired royalties on 11 additional projects (the “Second Roof-Top Solar Portfolio”) from OntarioCo.

The Company refinanced the existing OntarioCo loan and the new loan (“2020-Loan”) is a \$5 million loan for a term of one year at an interest rate of 10 percent. As part of the transaction, the Company acquired gross revenue royalties (2%) on the Second Portfolio for approximately 20 years. In addition, the royalty rate on its original portfolio of 49 projects has also been increase to 2%. In both cases the 2% royalty rate is subject to a graduated reduction to a minimum of 1.25% if all or part of the loan is repaid prior to maturity.

(d) *Scotian Windfields*

On February 6, 2020, the Company acquired a portfolio of 12 gross revenue royalties on 12 operational wind energy generation projects in Nova Scotia, Canada (“Nova Scotia Wind Projects”) from Scotian Windfields Inc. (“Scotian Windfields”) for \$1.34 million. The Company also provided an interest-bearing senior secured loan to Scotian Windfields of \$3.3 million dollars with a term of 3 years.

The Nova Scotia Wind Projects were developed from 2013 to 2017 and have been operating for between 3 and 6 years. The Nova Scotia Wind Projects have a generating capacity of 39.7 megawatts (MW), and have 20-year power purchase agreements with fixed electricity purchase prices from Nova Scotia Power Incorporated (“NSPI”).

(e) *Aeolis Wind Power Corporation*

In March 2016, the Company entered into a secured non-revolving term loan with Aeolis Wind Power Corporation (“Aeolis”), whereby the Company loaned Aeolis \$1,239,000 (the “Aeolis Loan”) subject to fixed annual payments of \$100,000, to be increased annually by an amount equal to 50% of the British Columbia Consumers Price Index. The term of the Aeolis Loan expires on July 31, 2035.

The Aeolis Loan is carried at its fair value in these Financial Statements.

(f) *Belltown*

In December 2018, the Company received a 1% gross revenue royalty interest (the “Rippey Royalty”) in the 78 MW Rippey solar project (“Rippey Project”) located in Texas as a consideration for a loan of US\$2.8 million provided to Belltown Power Texas, LLC (“Belltown”). The loan was fully repaid in March 2019 whereas the Company retained the royalty interest, which was carried at a nominal value in the Company’s financial statements.

In September 2020, the grantor of the Rippey Royalty exercised its option to buy-back the royalty as per the terms of the original royalty agreement for \$405,000 (US\$310,500).

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2020 and 2019

(Unaudited – Expressed in Canadian Dollars, unless otherwise stated)

5. INTEREST IN AN ASSOCIATE

During the nine months ended September 30, 2020, there was no change in the Company's interest in its US affiliate, RER US 1 LLC ("RER US"), other than the cost recovery and foreign exchange translation difference recorded in these Financial Statements.

6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	September 30, 2020	December 31, 2019
Accrued royalty revenue	\$ 233,095	\$ 160,410
Royalty receivable from RER US (note 5)	-	389,700
Other receivable from RER US (note 5)	86,779	67,707
Prepaid expenses	68,502	16,127
Other amounts receivable	-	228,910
	<u>\$ 388,376</u>	<u>\$ 862,854</u>

7. TRADE PAYABLES

	September 30, 2020	December 31, 2019
Trade payables	<u>\$ 95,867</u>	<u>\$ 58,735</u>

8. CONVERTIBLE DEBTS

(a) 2020 Unsecured Convertible Notes

In February 2020, the Company issued a series of unsecured convertible notes ("2020-Notes") to certain arm's-length parties for aggregate gross proceeds of \$1.6 million. The 2020-Notes have a term of 36 months and accrue interest at 8% per annum, compounded annually but payable at maturity. The 2020-Notes shall be convertible, at the holders' sole discretion, into common shares of the Company at a conversion price of \$1.00 per share. Without the prior written consent of the lenders, the Company will not incur indebtedness that would result in its debt to equity ratio to exceed 1:1.

(b) 2018 Unsecured Convertible Note

In November 2018, the Company issued to an arm's-length party a \$500,000 unsecured convertible note (the "2018-Note") with a 24-month term and interest rate of 7% per annum. The 2018-Note was convertible, at the holder's sole discretion, into common shares of the Company at conversion price of \$1.00 per share.

After the end of the reporting period, in November 2020, the 2018-Note was converted into the Company's Common Shares (note 13(c)).

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The 2020-Notes and the 2018-Note are compound financial instruments. A compound instrument has both a liability and an equity component from the issuer's perspective and, upon initial recognition, its equity component is recorded at the residual amount after deducting the amount separately determined for the liability component from the fair value of the instrument as a whole.

9. SHARE CAPITAL AND RESERVES

(a) Authorized share capital

The authorized share capital of the Company was comprised of an unlimited number of common shares without par value (the "Common Shares"). All issued shares are fully paid.

(b) Issued share capital

During the nine months ended September 30, 2020, pursuant to exercise of certain of the Company's share purchase warrants, the Company issued 500,000 Common Shares at \$0.50 per share for total proceeds of \$250,000.

During the nine months ended September 30, 2019, pursuant to exercise of certain of the Company's share purchase warrants, the Company issued 59,500 Common Shares at \$0.30 per share for total proceeds of \$17,850.

(c) Reserves

Equity-settled share-based payments reserve

The following describes the continuity of the Company's common share purchase options for the nine months ended September 30, 2020 and 2019:

Continuity of options	Nine months ended September 30, 2020		Nine months ended September 30, 2019	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding – beginning balance	1,360,000	\$ 0.82	1,330,000	\$ 0.82
Options granted	-	-	-	-
Options exercised	(7,700)	(1.00)	-	-
Outstanding – ending balance	1,352,300	\$ 0.82	1,330,000	\$ 0.82

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The following table summarizes information on the options outstanding and exercisable:

Exercise price	September 30, 2020		December 31, 2019	
	Number of options outstanding	Weighted average remaining contractual life (years)	Number of options outstanding	Weighted average remaining contractual life (years)
\$ 0.80	1,210,000	1.83	1,210,000	2.57
\$ 1.00	142,300	3.10	150,000	3.75
	1,352,300	1.96	1,360,000	2.70

Share purchase warrant reserve

The continuity of the Company's share purchase warrants is as follows:

Expiry date	February 2020	July 2020	November 2020	Total
Exercise price	\$0.30	\$0.50	\$1.00	
Balance at January 1, 2019	62,000	500,000	18,109	580,109
Exercised	(59,500)	-	-	(59,500)
Balance at January 1, 2020	2,500	500,000	18,109	520,609
Expired	(2,500)	-	-	(2,500)
Exercised	-	(500,000)	-	(500,000)
Balance at September 30, 2020	-	-	18,109	18,109

(d) Distribution to shareholders

During the nine months ended September 30, 2020, the Company declared the following cash distributions to its shareholders:

Declaration date	Record date	Payment date	Amount per share	Amount Total
January 8, 2020	January 29, 2020	February 19, 2020	\$ 0.01	\$ 321,714
April 8, 2020	April 29, 2020	May 20, 2020	0.01	321,714
July 10, 2020	July 29, 2020	August 19, 2020	0.01	326,714
			\$ 0.03	\$ 970,142

See Note 13(a) for the cash distribution declared after the end of the current reporting period.

In 2019, the Company declared the following cash distributions to its shareholders:

Declaration date	Record date	Payment date	Amount per share	Amount Total
March 15, 2019	April 3, 2019	May 1, 2019	\$ 0.01	\$ 321,714
June 25, 2019	July 17, 2019	August 7, 2019	0.01	321,714
September 27, 2019	October 16, 2019	November 6, 2019	0.01	321,714
Total			\$ 0.03	\$ 965,142

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10. RELATED PARTY TRANSACTIONS

Transactions relating to the Company's interest in an associate, RER US, are disclosed in Note 5.

Key management personnel ("KMP") are those persons that have the authority and responsibility for planning, directing and controlling the activities of the Company.

Transactions with KMP were as follows:

Remuneration for services rendered	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
Short-term employment benefits	\$ 99,000	\$ 102,000	\$ 303,000	\$ 282,000
Share-based compensation	-	6,000	6,000	76,000
Total	\$ 99,000	\$ 108,000	\$ 309,000	\$ 358,000

11. INCOME (LOSS) PER SHARE

The Company presents basic and diluted income (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders by the weighted average number of common during the period.

Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

12. FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

(a) *Credit Risk*

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its secured loans (note 4) and other financial assets, including cash and cash equivalents and amounts receivable.

The Company limits the exposure to credit risk for cash and cash equivalent by only investing it with high-credit quality financial institutions in business and saving accounts, which are available on demand by the Company.

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(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. The Company ensures, as far as reasonably possible, it will have sufficient capital in order to meet short to medium term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. The Company's cash are currently invested in business accounts.

(c) Foreign exchange risk

Primarily, the Company is exposed to foreign currency risk in respect of its cash held in foreign currency (note 3) and investment in RER US (note 5).

Based on the Company's U.S. dollar denominated monetary assets and monetary liabilities at September 30, 2020 a 10% increase (decrease) of the value of the U.S. dollar relative to the Canadian dollar would increase (decrease) net income by approximately \$47,000 and other comprehensive income by approximately \$56,000, respectively.

(d) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates.

The Company is subject to interest rate cash flow risk with respect to its cash and cash equivalents. The Company's policy is to invest cash at fixed rates of interest and cash reserves are to be maintained in cash in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates and when cash and cash equivalents mature impact interest income earned.

The Company's secured loans to Jade Power (note 4(a)), OntarioCo (note 4(c)), Scotian Windfields (note 4(d)), and Aeolis (note 4(e)), earn interest at fixed rates, and are therefore not subject to interest rate cash flow risk. The 2020-Notes (note 8(a)) and the 2018-Note (note 8(b)) are also subject to fixed rate of interest.

The Company is subject to interest rate fair value risk with respect to the secured loan to Aeolis, which is carried at fair value. An increase of 25 basis points in discount rates will result in a decrease of approximately \$18,000 in the fair value of the secured loan to Aeolis.

(e) Fair Value

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell an asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

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The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means.
- Level 3 inputs are unobservable (supported by little or no market activity).

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

As at September 30, 2020, the fair value measurement of the Aeolis Loan (note 4(e)) has been categorized within level 3 of the fair value hierarchy. The Company has assessed the fair value of the instrument based on a valuation technique using unobservable discounted future cash flows. Significant inputs used in the valuation of the Aeolis Loan that are not observable market data were the credit spread and other elements constituting the discount rates used; these inputs require judgement.

There were no transfers between the levels of the fair value hierarchy during the nine months ended September 30, 2020.

(f) Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of reserves, convertible debts (note 8) and accumulated deficit. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2020. At September 30, 2020, except for the debt to equity ratio requirement under the terms of the 2020-Notes (note 8(a)), the Company was not subject to any externally imposed capital requirements.

13. EVENTS AFTER THE REPORTING PERIOD

(a) Declaration and Payment of Dividend

In October 2020, the Company announced that the Board of Directors of the Company had declared a cash distribution of \$0.01 per issued and outstanding common share for the quarter ending September 30, 2020. The distribution of an aggregate amount of \$327,364 was paid on November 18, 2020 to shareholders of record on October 28, 2020.

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(b) Green Bonds

In August 2020, the Company announced the inaugural public offering of its 5-year green bonds, for gross proceeds of up to \$10,000,000 aggregate principal amount (the “Green Bonds”).

The Company’s Green Bonds will be issued in periodic tranches under available exemptions from the prospectus requirement, including the offering memorandum exemption. The Green Bonds have a principal amount of \$1,000 and bear interest at a rate of 6%, per annum, payable quarterly, and are senior secured obligations of the Company that are secured against the Company’s portfolio of royalty and loan investments.

The Green Bond offering is led by Integral Wealth Securities Limited (the “Agent”). The Company has also granted the Lead Agent an over-allotment option of up to 100% of the offering size, for a total Green Bond offering of up to \$20,000,000.

After the end of the reporting period, the Company closed two tranches of brokered and non-brokered private placement of the Green Bond offering for aggregate gross proceeds of \$7.5 Million as summarized below:

	Tranche 1	Tranche 2	Total
<u>Tranche closing and maturity date</u>			
Tranche closing date	October 2, 2020	October 29, 2020	
Maturity date	October 2, 2025	October 29, 2025	
<u>Number of Green Bonds issued at \$1,000 each</u>			
Brokered	4,947	1,661	6,608
Non-Brokered	505	450	955
Total	5,452	2,066	7,518
<u>Aggregate proceeds from the Green Bonds issued</u>			
Brokered	\$ 4,947,000	\$ 1,661,000	\$ 6,608,000
Non-Brokered	505,000	405,000	910,000
Total	\$ 5,452,000	\$ 2,066,000	\$ 7,518,000
<u>Cash commission and fees</u>			
Agent’s fee	\$ 197,880	\$ 66,440	\$ 264,320
Corporate finance fee	10,200	16,200	26,400
Finder’s fee – non-brokered	10,000	–	10,000
Total fees	\$ 218,080	\$ 82,640	\$ 300,720
<u>Warrants</u>			
Agent’s warrants	223,173	69,208	292,381
Corporate finance warrants	22,782	16,875	39,657
Total number of warrants issued	245,955	86,083	332,038

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	Tranche 1	Tranche 2	Total
Exercise price, based on 5-day volume adjusted weighted average share price (VWAP)	\$1.33	\$1.44	
Expiration (24-month term)	02-Oct-22	29-Oct-22	

(c) Conversion of the 2018-Note (note 8(b))

In November 2020, the holder of the 2018-Note elected to convert the outstanding principal sum of \$500,000 and accrued interest of \$3,538 into the Company's Common Shares at \$1 per share. Accordingly, upon conversion of the 2018-Note, the Company issued 503,538 of its Common Shares.

(d) Jade Power Loan – Partial Repayment

Pursuant to the Jade Power Loan (note 4(a)), as modified, Jade Power made cash payments totaling \$1,750,000 after the end of the reporting period in October 2020 and November 2020 against the principal sum of the Jade Power Loan.