



RE ROYALTIES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND SIX MONTHS ENDED
JUNE 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	June 30, 2020	December 31, 2019
ASSETS			
Non-current assets			
Secured loans and royalty interest	4	\$ 8,519,701	\$ 7,492,267
Investment in an associate	5	574,520	563,770
		9,094,221	8,056,037
Current assets			
Secured loans and royalty interest	4	8,606,702	5,173,483
Amounts receivable and prepaid expenses	6	373,179	862,854
Cash and cash equivalents	3	1,121,319	4,048,057
		10,101,200	10,084,394
TOTAL ASSETS		\$ 19,195,421	\$ 18,140,431
EQUITY			
Share capital	9(b)	\$ 22,241,137	\$ 22,241,137
Reserves	9(c)	750,203	632,219
Accumulated deficit		(5,874,582)	(5,279,574)
		17,116,758	17,593,782
LIABILITIES			
Non-current liabilities			
Convertible notes	8(a)	1,513,823	-
		1,513,823	-
Current liabilities			
Convertible note	8(b)	494,857	487,914
Trade payables and accrued liabilities	7	69,983	58,735
		564,840	546,649
Total liabilities		2,078,663	546,649
TOTAL EQUITY AND LIABILITIES		\$ 19,195,421	\$ 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 August 31, 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 June 30,		Six months ended June 30,	
		2020	2019	2020	2019
Revenue and income					
Royalty revenue	4	\$ 260,732	\$ 117,959	\$ 393,498	\$ 144,065
Finance income	4	331,594	233,424	642,314	489,470
		592,326	351,383	1,035,812	633,535
Amortization and depletion					
Amortization of transaction cost	4	–	35,641	7,521	88,503
Depletion of royalty interest	4	71,235	18,952	133,878	29,833
		(71,235)	(54,593)	(141,399)	(118,336)
Gross profit		521,091	296,790	894,413	515,199
Gain on revaluation of financial asset at FVTPL	4(a)	40,648	32,005	111,110	71,560
Gross profit and changes in fair value of financial assets		561,739	328,795	1,005,523	586,759
Expenses/(recoveries)		–			
Rent and information technology		19,440	14,963	38,700	29,138
Legal		–	1,099	–	1,099
Regulatory		11,494	4,155	22,538	20,749
Audit and audit related fees		78,814	73,236	78,814	73,236
Administration		81,806	76,206	153,600	133,281
Donations		25,000	25,000	50,000	25,000
Marketing and stakeholder communication		48,688	55,572	99,953	96,275
Consulting		89,001	–	164,673	–
Wages and benefits		134,885	131,690	265,439	231,519
Equity-settled share-based payments	9(c)	4,099	18,048	8,984	72,194
Cost recoveries	5	(4,166)	(18,271)	(4,166)	(36,669)
		(489,061)	(381,698)	(878,535)	(645,822)
Other items					
Finance expenses		61,829	11,918	100,523	23,629
Share of loss of an associate	5	11,250	17,764	11,250	32,664
Foreign exchange loss (gain)		3,830	82,840	(33,205)	172,589
		(76,909)	(112,522)	(78,568)	(228,882)
Net income (loss)		\$ (4,231)	\$ (165,425)	\$ 48,420	\$ (287,945)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to net income					
Foreign exchange translation difference	5	(25,000)	(10,300)	22,000	(30,800)
Total other comprehensive income (loss)		(25,000)	(10,300)	22,000	(30,800)
Total comprehensive income (loss)		\$ (29,231)	\$ (175,725)	\$ 70,420	\$ (318,745)
Basic and diluted income (loss) per share	11	\$ (0.00)	\$ (0.01)	\$ 0.00	\$ (0.01)
Weighted average number of common shares outstanding	11	32,171,389	32,171,389	32,171,389	32,143,776

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		-	-	-	-	-	-	(287,945)	(287,945)
Other comprehensive loss		-	-	-	-	-	(30,800)	-	(30,800)
Total comprehensive loss		-	-	-	-	-	(30,800)	(287,945)	(318,745)
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)	-	-	72,194	-	-	-	-	72,194
Distribution to shareholders	9(d)	-	-	-	-	-	-	(643,428)	(643,428)
Balance at June 30, 2019		32,171,389	\$ 22,241,137	\$ 505,384	\$ 12,876	\$ 26,911	\$ 68,600	\$ (4,833,741)	\$ 18,021,167
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		-	-	-	-	-	-	48,420	48,420
Other comprehensive income		-	-	-	-	-	22,000	-	22,000
Total comprehensive income		-	-	-	-	-	22,000	48,420	70,420
Convertible note – equity component	8(a)	-	-	-	-	87,000	-	-	87,000
Equity-settled share-based payments	9(c)	-	-	8,984	-	-	-	-	8,984
Distribution to shareholders	9(d)	-	-	-	-	-	-	(643,428)	(643,428)
Balance at June 30, 2020		32,171,389	\$ 22,241,137	\$ 537,167	\$ 12,876	\$ 113,911	\$ 86,249	\$ (5,874,582)	\$ 17,116,758

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	Six months ended June 30,	
		2020	2019
Operating activities			
Net income (loss)		\$ 48,420	\$ (287,945)
Adjustments for:			
Amortization of transaction costs	4	7,521	88,503
Depletion of royalty interests	4	133,878	29,833
Interest received, net of (accretion and accrued interest) on secured loans	4	136,607	(194,298)
Gain on revaluation of financial asset at FVTPL	4(a)	(111,110)	(71,560)
Finance expenses		100,523	23,629
Equity-settled share-based payments	9(c)	8,984	72,194
Share of loss of an associate	5	11,250	32,664
Unrealized exchange loss on cash held	3	(4,300)	86,280
Changes in working capital items:			
Amounts receivable and prepaid expenses		489,671	(221,485)
Trade payables and accrued liabilities		11,248	(335,474)
Cash provided by (used in) operating activities		832,692	(777,659)
Investing activities			
Restricted cash	3	–	3,738,000
Acquisition of royalty interests and secured loan	4(e)	(4,627,545)	(1,871,864)
Loan advanced and acquisition of royalty interest		–	(5,000,000)
Proceed from repayment of secured loan	4(f)	–	57,410
Cash distribution received from an associate		–	294,580
Deferred transaction costs		–	6,650
Cash used in investing activities		(4,627,545)	(2,775,224)
Financing activities			
Cash distribution to shareholders	9(d)	(643,428)	(321,714)
Proceeds from exercise of warrants	9(b)	–	17,850
Proceeds from issuance of convertible notes, net of costs	8(a)	1,524,647	–
Interest paid		(17,404)	(22,630)
Cash provided by (used in) financing activities		863,815	(326,494)
Decrease in cash and cash equivalents		(2,931,038)	(3,879,377)
Effects of exchange rate fluctuations on cash held	3	4,300	(4,800)
Cash and cash equivalents, opening balance		4,048,057	8,859,907
Cash and cash equivalents, closing balance		\$ 1,121,319	\$ 4,975,730

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 six months ended June 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 six months ended June 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’s 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 six months ended June 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 June 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 revenue and income by geographical areas:

	Royalty Revenue	Finance Income	Total
Six months ended June 30, 2020			
Europe	\$ 103,758	\$ 214,264	\$ 318,022
North America	289,740	428,050	717,790
Total	\$ 393,498	\$ 642,314	\$ 1,035,812

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

	Royalty Revenue	Finance Income	Total
Six months ended June 30, 2019			
Europe	\$ 52,494	\$ 227,841	\$ 280,335
North America	91,571	261,629	353,200
Total	\$ 144,065	\$ 489,470	\$ 633,535

3. CASH AND CASH EQUIVALENTS

	June 30, 2020	December 31, 2019
Components of cash and cash equivalents:		
Cash held in business accounts		
Denominated in Canadian Dollars	\$ 1,022,849	\$ 784,050
Denominated in US Dollars	98,470	3,264,007
Total	\$ 1,121,319	\$ 4,048,057
Supplemental cash flow information:	Six months ended June 30,	2019
	2020	
Interest received		
Interest received on secured loan classified in operating activities	\$ 762,773	\$ 175,510
Interest on cash and cash equivalent classified in operating activities	16,148	138,877
Total	\$ 778,921	\$ 314,387

In December 2018, pursuant to a loan agreement with Belltown Power Texas, LLC (“Belltown”), the Company provided a stand-by letter of credit of US\$2.76 million on behalf of Belltown and in order for Belltown to post certain collateral for grid connection (note 4(f)).

In March 2019, the loan receivable from Belltown was repaid in full and the SBLC was cancelled releasing the restriction on the cash.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

4. SECURED LOANS AND ROYALTY INTERESTS

	June 30, 2020	December 31, 2019
Secured Loans – Amortized Cost		
Jade Power (note 4(b))	\$ 3,516,706	\$ 3,784,268
OntarioCo (note 4(d))	4,986,595	5,074,789
Scotian Windfields (note 4(e))	3,151,261	–
	11,654,562	8,859,057
Secured Loans – FVTPL		
Aeolis (note 4(a))	1,201,915	1,090,805
Royalty Interest		
Jade Power (note 4(b))	674,611	696,373
Northland Power Inc. (note 4(c))	1,734,419	1,799,869
OntarioCo (note 4(d))	302,234	219,645
Scotian Windfields (note 4(e))	1,558,661	–
Belltown (note 4(f)) (carried at a nominal value)	1	1
	4,269,926	2,715,888
Total	\$ 17,126,403	12,665,750
Non-current portion	\$ 8,519,701	\$ 7,492,267
Current portion	8,606,702	5,173,483
Total	\$ 17,126,403	\$ 12,665,750

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

	Jade Power (note 4(b))	OntarioCo (2019-Loan) (note 4(d))	OntarioCo (2020-Loan) (note 4(d))	Scotian Windfields (note 4(e))	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	143,201	175,211	75,881	160,810	555,103
Capitalization of expenses/fees	346,758	–	–	–	346,758
Cash payments received	(750,000)	(250,000)	–	(38,467)	(1,038,467)
Loan refinanced	–	(5,000,000)	–	–	(5,000,000)
	\$ 3,516,706	\$ –	\$ 4,986,595	\$ 3,151,261	\$ 11,654,562

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

	Jade Power (note 4(b))	OntarioCo (2019-Loan) (note 4(d))	OntarioCo (2020-Loan) (note 4(d))	Scotian Windfields (note 4(e))	Total
Transaction cost					
Beginning balance	\$ 7,521	\$ -	\$ -	\$ -	\$ 7,521
Amortization	(7,521)	-	-	-	(7,521)
	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying amount	\$ 3,516,706	\$ -	\$ 4,986,595	\$ 3,151,261	\$ 11,654,562

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

	Jade Power (note 4(b))	Belltown (note 4(f))	Total
Loan			
Beginning balance	\$ 3,596,662	\$ 57,386	\$ 3,654,048
Accretion and accrued interest	227,841	61,295	289,136
Cash payments received	(95,000)	(118,681)	(213,681)
	\$ 3,729,503	\$ -	\$ 3,729,503
Transaction cost			
Beginning balance	\$ 154,164	\$ 24,947	\$ 179,111
Cost recovery	-	(6,674)	(6,674)
Amortization	(70,231)	(18,273)	(88,504)
	\$ 83,933	\$ -	\$ 83,933
Carrying amount	\$ 3,813,435	\$ -	\$ 3,813,435

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

	Cost			Depletion			Carrying Amount
	Beginning balance	Addition	Ending Balance	Beginning balance	Charge for the period	Ending Balance	
June 30, 2020							
Jade Power	\$ 826,944	\$ -	\$ 826,944	\$ 130,571	\$ 21,762	\$ 152,333	\$ 674,611
Northland	1,871,864	-	1,871,864	71,995	65,450	137,445	1,734,419
OntarioCo	227,272	89,289	316,561	7,626	6,701	14,327	302,234
Scotian Windfields	-	1,598,626	1,598,626	-	39,965	39,965	1,558,661
Belltown ⁽ⁱ⁾	1	-	1	-	-	-	1
Total	\$2,926,081	\$1,687,915	\$4,613,996	\$ 210,192	\$ 133,878	\$ 344,070	\$4,269,926

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

	Cost			Depletion			Carrying Amount
	Beginning balance	Addition	Ending Balance	Beginning balance	Charge for the period	Ending Balance	
June 30, 2019							
Jade Power	\$ 826,944	\$ -	\$ 826,944	\$ 87,047	\$ 21,762	\$ 108,809	\$ 718,135
Northland	-	1,871,864	1,871,864	-	6,545	6,545	1,865,319
OntarioCo	-	227,272	227,272	-	1,526	1,526	225,746
Belltown ⁽ⁱ⁾	-	1	1	-	-	-	1
	\$ 826,944	\$2,099,137	\$2,926,081	\$ 87,047	\$ 29,833	\$ 116,880	\$2,809,201

(i) Additionally, the Company retained a 1% gross revenue royalty interest in the Rippey Project (note 4(f)) that is carried at a nominal value in these Financial Statements.

(a) *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.

(b) *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. Jade Power made a cash payment of \$750,000 to the Company, leaving a remaining principal sum of \$3.4 million on the Jade Power Loan as of June 30, 2020. Under the modified Jade Power Loan, Jade Power is required to make a payment of \$250,000 to the Company against the principal sum on September 30, 2020 and to repay the remaining balance in full by December 31, 2020.
- The Company released its royalty interest and collateral on the Suha hydro project, which has 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.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

(c) *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.

(d) *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.

(e) *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”).

(f) *Belltown*

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

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

5. INTEREST IN AN ASSOCIATE

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

6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	June 30, 2020	December 31, 2019
Accrued royalty revenue	\$ 186,261	\$ 160,410
Royalty receivable from RER US (note 5)	-	389,700
Other receivable from RER US (note 5)	77,475	67,707
Prepaid expenses	77,397	16,127
Other amounts receivable	32,046	228,910
	<u>\$ 373,179</u>	<u>\$ 862,854</u>

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	June 30, 2020	December 31, 2019
Trade payables	\$ 68,283	\$ 58,735
Accrued liabilities	1,700	-
	<u>\$ 69,983</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.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2020 and 2019

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

(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 shall be convertible, at the holder's sole discretion, into common shares of the Company at conversion price of \$1.00 per share.

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 six months ended June 30, 2020, there was no change in the Company's share capital.

During the six months ended June 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 and 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 six months ended June 30, 2020 and 2019:

Continuity of options	Six months ended June 30, 2020		Six months ended June 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	-	-	-	-
Outstanding – ending balance	1,360,000	\$ 0.82	1,330,000	\$ 0.82

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The following table summarizes information on the options outstanding:

Options outstanding Exercise price	June 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	2.07	1,210,000	2.57
\$ 1.00	150,000	3.25	150,000	3.75
	1,360,000	2.20	1,360,000	2.70

The following table summarizes information on the options exercisable as at the following reporting dates:

Options exercisable Exercise price	June 30, 2020		December 31, 2019	
	Number of options exercisable	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average remaining contractual life (years)
\$ 0.80	1,200,000	2.08	1,190,000	2.58
\$ 1.00	150,000	3.25	100,000	3.75
	1,350,000	2.21	1,290,000	2.67

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)
Balance at June 30, 2020	-	500,000	18,109	518,109

(d) *Distribution to shareholders*

During the six months ended June 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
			\$ 0.02	\$ 643,428

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

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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

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 June 30,		Six months ended June 30,	
	2020	2019	2020	2019
Short-term employment benefits	\$ 102,000	\$ 102,000	\$ 204,000	\$ 180,000
Share-based compensation	3,000	18,000	6,000	70,000
Total	\$ 105,000	\$ 120,000	\$ 210,000	\$ 250,000

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

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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.

(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 June 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 \$10,000 and other comprehensive income by approximately \$57,000, 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 investments in 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 Aeolis (note 4(a)), Jade Power (note 4(b)), OntarioCo (note 4(d)), and Scotian Windfields (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.

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(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).

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 June 30, 2020, the fair value measurement of the Aeolis Loan (note 4(a)) 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 six months ended June 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 six months ended June 30, 2020. At June 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.

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13. EVENTS AFTER THE REPORTING PERIOD

(a) *Declaration and Payment of Dividend*

In July 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 June 30, 2020. The distribution of an aggregate amount of \$326,714 was paid on August 19, 2020 to shareholders of record on July 29, 2020.

(b) *Exercise of Warrants*

In July 2020, 500,000 of the Company's share purchase warrants (note 9(c)) were exercised at a price of \$0.50 per share and for cash proceeds of \$250,000.

(c) *Green Bonds*

In July 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 under available exemptions from the prospectus requirement, including the offering memorandum exemption, and will be subject to a minimum offering size of \$2,000,000. 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 minimum subscription amount is \$5,000.

The Green Bond offering will be led by Integral Wealth Securities Limited (the "Lead 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. The Green Bonds, subject to approval of the TSX Venture Exchange, will close in tranches monthly with the initial closing expected to occur on or around September 30, 2020.