RE Royalties Ltd
External Review of Green Bond Report 2023

April 16, 2024

This report was produced by S&P using Shades of Green Methodology.
On December 1, 2022, S&P Global acquired Shades of Green from CICERO.

S&P Global has reviewed RE Royalties' Green Bond Report 2023 ("Report") relating to its green financing activities. We review against RE Royalties' Green Bond Framework (from 2020, the "Framework" or the "2020 Framework") criteria, and impact metrics for relevance and transparency.[1]

We consider that the allocations considered in the Report align with the Framework and that the Report utilizes relevant and sufficiently transparent impact metrics. We furthermore consider the Report aligns with the core principles and recommendations contained in ICMA's Handbook – Harmonized Framework for Impact Reporting (June 2023),[2] save that the Report does not pro-rate impacts (though we welcome that the Report is explicit and transparent on this approach).

Investment allocation

RE Royalties has issued three green bond series under the Framework as at December 31, 2023, with net proceeds totalling around CAD 33.8 million.[3] Series one and two are fully allocated, while series three is 85% committed (includes both proceeds that are allocated and proceeds that are signed but not yet allocated).

RE Royalties reports the allocation of proceeds issued under the Framework on an investment-by-investment basis, up to December 31, 2023. This totals ten investments, of which two have been repaid in this period and partially reallocated to two other eligible investments under the framework – we consider the Report is sufficiently transparent on this issue.[4] The investments constitute six solar energy investments, three battery investments, and one wind energy investment. As such, in respect of allocation, we consider the Report aligned with the Framework; for a more detailed review, please see Appendix 1.

While S&P Global did not provide a Second Party Opinion (SPO) on the 2020 Framework - against which the Report is assessed - we provided an SPO on RE Royalties' subsequent framework dated April 2024, which received an overall Dark Green shade (the "2024 SPO").[5] Within the 2024 SPO, both the renewable energy project (which includes solar and wind power) and energy efficiency (which includes battery storage) project categories received Dark Green to Medium Green shadings. Given the overlap in eligibility criteria between the frameworks - and given RE Royalties has confirmed the same management of climate and environmental risk under both

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[1] RE Royalties has not previously published a dedicated green bond report under the Framework, though it publishes quarterly MD&A reports which, according to RE Royalties, provide information on all its investments (i.e. not limited to those financed under the Framework), including information on green bond issuances, as well as project descriptions and impacts.
[2] ICMA Handbook
[3] Though issued in both CAD and USD, the Report converts USD to CAD using the exchange rate as at each transaction date. The first series consists of four issuances with net proceeds of around CAD 9.01 million, the second series consists of one issuance with net proceeds of around CAD 9 million, and the third series consists of four issuances with net proceeds of around CAD 15.7 million.
[4] The Report states both 'total deployed' proceeds, where the redeployed / reallocated proceeds are considered cumulatively, and 'remaining allocated' proceeds, where redeployed / reallocated proceeds are deducted.
[5] Second Party Opinion: RE Royalties Green Bond Framework (spglobal.com)

frameworks - we consider the Shades of Green allocated in the 2024 SPO to be applicable to the 2020 Framework. As such, 100% of the allocations under the Framework are considered to fall within Dark Green to Medium Green project categories (see Figure 1), and we furthermore note that the investments in the Report (solar, wind, battery storage) are typically considered at the Dark Green end of this range.

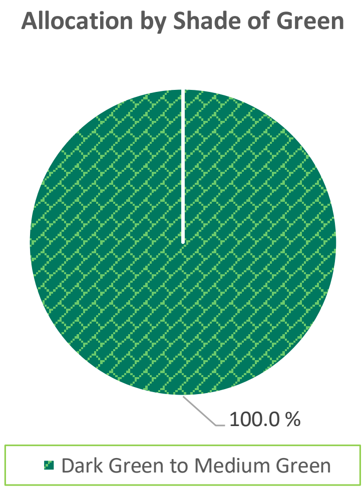

Figure 1: Allocation by SPO Shade of Green. Shading does not reflect ex-post project verification.

Impact metrics

RE Royalties reports impacts on an investment-by-investment basis. Three metrics are provided for each investment (whether solar energy, battery, or wind energy): 1) capacity, 2) generation, and 3) avoided emissions, which align with the Framework's example metrics. Overall, we consider that RE Royalties provides sufficiently transparent and relevant impact reporting; for a more detailed review, please see Appendix 1.

Impacts are prepared on an ex-ante basis at the time of the investment, with generation and avoided emissions calculated for a one-year period. Investors should note that, as impacts are estimated at the time of investment, they are not necessarily reflective of actual impact.[6] The Report does not pro-rate impacts to reflect the share of project cost financed by proceeds raised under the Framework. We welcome that the Report is explicit and transparent on this approach, though also consider the lack of pro-rating to be a shortcoming which does not align with the relevant guidance in ICMA's Handbook – Harmonized Framework for Impact Reporting (June 2023).

We welcome that RE Royalties sets out - on a high level - its methodology for calculating avoided emissions, including that it includes a link to its Annual Information Form and MD&As which contain more specific information on the grid factors it utilizes.

Terms

S&P Global provides a review of RE Royalties' reporting based on documentation provided by the issuer and information gathered during teleconferences and e-mail correspondence with RE Royalties. RE Royalties is solely responsible for providing accurate information. All financial aspects of the sustainable finance reporting -

[6] We understand from RE Royalties that it also calculates certain ex-post impacts for certain projects, for example actual energy generation from renewable energy projects. In future reporting, RE Royalties could consider including elements of such information to further increase transparency.

including the financial performance of the bond and the value of any investments in the bond - are outside of our scope, as are general governance issues such as corruption and misuse of funds. S&P Global does not validate nor certify the existence of investments and does not validate nor certify the climate effects of investments. Our objective has been to provide an assessment of the extent to which the bond has met the allocation and reporting criteria established in the Framework. The review is intended to inform RE Royalties, investors and other interested stakeholders in RE Royalties' green bond and has been made based on the information provided to us. S&P Global cannot be held liable if estimates, findings, opinions or conclusions are incorrect. Our review does not follow verification or assurance standards and we can therefore not provide assurance that the information presented does not contain material discrepancies.

Appendix 1 - Detailed Review

Category	Description	Review against framework criteria	Impact Metrics	Relevance of metrics	Transparency considerations
Renewable Energy	• Investments related to the generation and supply of energy from renewable and low carbon sources such as: ○ Solar energy (PV, concentrated) ○ Wind energy (onshore, offshore) ○ Hydroelectric (run of river, pumped storage) ○ Geothermal, bioenergy (renewable fuels), waste to energy	**No discrepancies identified** • The projects financed under the renewable energy project category are six investments in solar energy and one investment in onshore wind energy. Two of the solar energy investments were partially redeployed / reallocated to another solar energy investment and the wind energy investment. • One borrower specializes in mobile solar-powered lighting and communication towers which can be used in industries such as construction and mining. While reducing emissions in such sectors is crucial, projects within such sectors can also engender other environmental risks, for example in respect of water	• Capacity (MW_{AC}) • Generation (MWh) • Avoided emissions (tCO_2e)	✓ Metrics are common and relevant and production, capacity, and avoided emissions are listed as core indicators for renewable energy in the ICMA Handbook – Harmonized Framework for Impact Reporting.	✓ Impacts are reported on an investment-by-investment basis. We consider this to increase transparency. ✓ We consider that the Report is sufficiently transparent on the methodology for calculating avoided emissions. ✓ The Report is transparent on which projects are operational and which are in development. ✓ Impacts are not pro-rated to reflect the share of project cost financed by proceeds raised under the Framework. While we welcome that the Report is explicit and transparent on this point, the lack of pro-rating is nevertheless considered a shortcoming.

		(over-) use or local environmental damage. • The Report does not disclose the sector in which the off-taker of the wind investment operates.			
Energy Efficiency and Management	• Investments related to activities that contribute to the reduction of energy consumption or help manage and store energy such as: ○ Commerical and industrial efficiency solutions ○ Energy storage systems (batteries)	**No discrepancies identified** • The projects financed under the energy efficiency and management project category are three battery storage investments. • According to the Report, the batteries are currently utilized at commercial buildings, in food manufacturing and hotel sites, and by a distribution utility. • The investments under the framework store energy from the grid, which is not necessarily from renewable or low carbon sources.[7] Though the batteries can therefore store and deliver fossil-based electricity	• Capacity (MW_{AC}) • Generation (MWh) • Avoided emissions (tCO_2e)	✓ Battery capacity and generation (energy delivered) are considered common and relevant metrics for such projects, and avoided emissions is listed as a core indicator for energy efficiency in the ICMA Handbook – Harmonized Framework for Impact Reporting.	✓ As above.

[7] According to the Report, the projects are currently located in Vermont (USA), Ontario (Canada), and Cancun (Mexico).

(which typically has higher associated greenhouse gas emissions than electricity from renewable sources), in such cases, batteries can contribute to avoided emissions, inter alia, through charging at times of high renewable content and discharging at peak times when additional fossil-based sources are utilized in the grid.

- Battery storage can furthermore contribute to grid stabilization and resilience, and can help offset the intermittency of renewable sources (when stored energy derives from these).

S&P Global
Ratings

This report does not constitute a rating action.