



RE ROYALTIES LTD.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2019 AND 2018

(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, 2019	December 31, 2018
ASSETS			
Non-current assets			
Secured loans and royalty interest	4	\$ 7,575,536	\$ 5,512,652
Investment in an associate	5	580,072	945,419
		8,155,608	6,458,071
Current assets			
Secured loans and royalty interest	4	5,053,193	181,507
Amounts receivable and prepaid expenses	6	1,059,710	557,201
Restricted cash	3(b)	–	3,819,480
Cash and cash equivalents	3(a)	4,567,317	8,859,907
		10,680,220	13,418,095
TOTAL ASSETS		\$ 18,835,828	\$ 19,876,166
EQUITY			
Share capital	9(a)	\$ 22,241,137	\$ 22,181,863
Reserves	9(c)	632,427	613,801
Accumulated deficit		(5,070,320)	(3,902,368)
		17,803,244	18,893,296
LIABILITIES			
Non-current liabilities			
Convertible note	8	484,524	474,944
		484,524	474,944
Current liabilities			
Trade payables and accrued liabilities	7	226,346	507,926
Distribution payable	9(d)	321,714	–
		548,060	507,926
TOTAL EQUITY AND LIABILITIES		\$ 18,835,828	\$ 19,876,166

Nature and continuance of operations (note 1)

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 29, 2019 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,	
		2019	2018	2019	2018
Revenue and income					
Royalty revenue	4	\$ 142,016	\$ 22,429	\$ 286,081	\$ 69,118
Finance income		267,525	110,559	756,995	327,749
		409,541	132,988	1,043,076	396,867
Amortization and depletion					
Amortization of transaction cost		37,971	32,250	126,474	91,819
Depletion of royalty interest	4	46,656	10,881	76,489	32,643
		(84,627)	(43,131)	(202,963)	(124,462)
Gross profit		324,914	89,857	840,113	272,405
Gain on revaluation of financial asset at FVTPL	4(a)	22,887	4,519	94,447	34,735
Gross profit and changes in fair value of financial assets		347,801	94,376	934,560	307,140
Expenses/(recoveries)					
Rent and information technology		14,962	9,536	44,100	28,436
Legal		–	11,781	1,099	100,442
Audit and audit related services		–	14,605	73,236	119,091
Regulatory		3,414	–	24,163	–
Administration		51,088	40,500	184,369	133,788
Donations		–	–	25,000	–
Marketing and stakeholder communication		65,685	30,580	161,960	56,156
Consulting		33,218	229,148	33,218	258,458
Wages and benefits		132,201	63,688	363,720	200,633
Equity-settled share-based payments	9(c)	12,054	64,798	84,248	292,726
Cost recoveries	5	(26,248)	(37,779)	(62,917)	(131,897)
		(286,374)	(426,857)	(932,196)	(1,057,833)
Other expenses (income)					
Finance expenses		12,129	21,822	35,758	85,000
Share of loss of an associate	5	13,904	(5,000)	46,568	–
Foreign exchange (gain) loss		(49,741)	541	122,848	(6,340)
		23,708	(17,363)	(205,174)	(78,660)
Net income (loss)		\$ 85,135	\$ (349,844)	\$ (202,810)	\$ (829,353)
Other comprehensive income (loss)					
Items that may be subsequently reclassified to net income					
Foreign exchange translation difference		6,602	(22,400)	(24,198)	26,400
Total other comprehensive income (loss)		6,602	(22,400)	(24,198)	26,400
Total comprehensive income (loss)		\$ 91,737	\$ (372,244)	\$ (227,008)	\$ (802,953)
Basic and diluted earning (loss) per share	11	\$ 0.00	\$ (0.02)	\$ (0.01)	\$ (0.05)
Weighted average number of common shares outstanding		32,171,389	15,810,931	32,153,081	15,446,073

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)

	Share capital				Reserves						Total equity
	Note	Number of shares	Amount	Subscriptions received	Convertible note	Equity-settled share-based payments	Share purchase warrants	Convertible note - conversion option	Foreign currency translation reserve	Accumulated deficit	
Balance at January 1, 2018		11,966,422	\$ 3,937,635	\$ -	\$ 1,300,500	\$ 95,565	\$ 20,000	\$ -	\$ -	\$ (680,242)	\$ 4,673,458
Impact of adoption IFRS 9		-	-	-	-	-	-	-	-	(23,137)	(23,137)
Restated balance at January 1, 2018		11,966,422	\$ 3,937,635	\$ -	\$ 1,300,500	\$ 95,565	\$ 20,000	\$ -	\$ -	\$ (703,379)	\$ 4,650,321
Net loss for the period		-	-	-	-	-	-	-	-	(829,353)	(829,353)
Other comprehensive income for the period		-	-	-	-	-	-	-	26,400	-	26,400
Total comprehensive loss		-	-	-	-	-	-	-	26,400	(829,353)	(802,953)
Issuance of common shares as settlement of a loan	9(b)	1,875,000	1,405,500	-	-	-	-	-	-	-	1,405,500
Convertible note and interest thereon converted into common shares		2,008,767	1,405,500	-	(1,300,500)	-	-	-	-	-	105,000
Share subscriptions received		-	-	13,060,000	-	-	-	-	-	-	13,060,000
Equity-settled share-based payments	9(c)	-	-	-	-	292,726	-	-	-	-	292,726
Balance at September 30, 2018		15,850,189	\$ 6,748,635	\$ 13,060,000	\$ -	\$ 388,291	\$ 20,000	\$ -	\$ 26,400	\$ (1,532,732)	\$18,710,594
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 for the period		-	-	-	-	-	-	-	-	(202,810)	(202,810)
Other comprehensive loss for the period		-	-	-	-	-	-	-	(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

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,	
		2019	2018
Operating activities			
Net loss		\$ (202,810)	\$ (829,353)
Adjustments for:			
Amortization of transaction costs		126,474	91,819
Depletion of royalty interest	4	76,489	32,643
Accretion and accrued interest on secured loans		(337,978)	(132,113)
Gain on revaluation of financial asset at FVTPL	4(a)	8,256	66,995
Finance expenses		35,758	85,000
Equity-settled share-based payments		84,248	292,726
Share of loss of an associate	5	46,568	-
Exchange loss upon reclassification of restricted cash	3(b)	81,480	
Unrealized exchange loss on cash held		20,173	105
Changes in working capital items:			
Amounts receivable and prepaid expenses		(502,519)	84,447
Trade payables and accrued liabilities		(276,306)	324,394
Cash (used in) provided by operating activities		(840,167)	16,663
Investing activities			
Restricted cash	3(b)	3,738,000	-
Acquisition of royalty interest	4(c)	(1,871,864)	-
Loan advanced and acquisition of royalty interest	4(d)	(5,000,000)	-
Proceed from repayment of secured loan	4(e)	57,413	-
Cash distribution received from an associate	5	294,580	-
Acquisition of interest in an associate	5	-	(869,527)
Deferred transaction costs		6,650	(5,000)
Cash used in investing activities		(2,775,221)	(874,527)
Financing activities			
Cash distribution to shareholders	9(d)	(643,428)	-
Proceeds from exercise of warrants	9(b)	17,850	-
Share subscriptions received		-	13,060,000
Fee relating to the conversion of loan into common shares	9(b)	-	(94,500)
Interest paid		(31,451)	(63,333)
Cash (used in) provided by financing activities		(657,029)	12,902,167
(Decrease) increase in cash and cash equivalents		(4,272,417)	12,044,303
Effects of exchange rate fluctuations on cash held		(20,173)	(105)
Cash and cash equivalents, opening balance		8,859,907	909,402
Cash and cash equivalents, closing balance	3(a)	\$ 4,567,317	\$ 12,953,600

Supplemental cash flow information (note 3(a))

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, 2019 and 2018

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

1. NATURE AND CONTINUANCE OF OPERATIONS

RE Royalties Ltd., formerly Baetis Ventures 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.

On November 6, 2018, the Company completed its qualifying transaction (the “Transaction”) under TSXV Policy 2.4 – Capital Pool Companies, and it concurrently changed its name from Baetis Ventures Ltd. to RE Royalties Ltd. Prior to the Transaction, the Company was a Capital Pool Company (CPC) as defined pursuant to Policy 2.4 of the TSXV that performed no significant business activities other than the identification and evaluation of assets or businesses with the view of completing a qualifying transaction.

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, 2019 and 2018. RE Royalties Ltd. is the ultimate legal parent entity in the Group.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these Financial Statements are described below. These policies have been consistently applied for all periods presented, unless otherwise stated.

(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, 2018, which were filed under the Company’s profile on SEDAR at www.sedar.com. Results for the current reporting period are not necessarily indicative of future results. Accounting policies applied herein are the same as those applied in the Company’s annual financial statements.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

(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.

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, 2018.

(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, 2019 and December 31, 2018, 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.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

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

	Royalty Revenue	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
Nine months ended September 30, 2018			
Europe	\$ 69,118	\$ 322,113	\$ 391,231
North America	-	5,636	5,636
Total	\$ 69,118	\$ 327,749	\$ 396,867

(e) *Changes in significant accounting policies*

IFRS 16, Leases

The IASB issued IFRS 16, Leases ("IFRS 16") in January 2016, effective for annual periods commencing on or after January 1, 2019. IFRS 16 specifies how to recognize, measure, present and disclose leases. IFRS 16 provides a single lessee accounting model, requiring the recognition of assets and liabilities for all leases, unless the term of the lease is twelve months or less or the underlying asset has a low value. Lessor accounting however remains substantially unchanged from IAS 17 and the distinction between operating and finance leases is retained.

The adoption of IFRS 16 did not have an impact on these Financial Statements.

IFRIC 23, Uncertainty over income tax treatments

In June 2017, the IFRS Interpretations Committee issued IFRIC 23, which clarifies how the recognition and measurement requirements of IAS 12, Income Taxes are applied where there is uncertainty over income tax treatments. IFRIC 23 becomes effective for annual periods beginning on or after January 1, 2019 and is to be applied retrospectively with early adoption permitted.

The adoption of IFRIC 23 did not have an impact on these Financial statements.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

3. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

(a) Cash and cash equivalents

	September 30,	December 31,
	2019	2018
Components of cash and cash equivalents:		
Cash held in business accounts		
Denominated in Canadian Dollars	\$ 547,052	\$ 2,774,070
Denominated in US Dollars	4,020,265	85,837
	\$ 4,567,317	\$ 2,859,907
Cash equivalents held in Guaranteed Investment Certificates	-	6,000,000
Total	\$ 4,567,317	\$ 8,859,907

	Nine months ended September 30,	
	2019	2018
Interest received		
Interest received on secured loan classified in operating activities	\$ 270,510	\$ 190,000
Interest on cash and cash equivalent classified in operating activities	167,722	5,636
Total	\$ 438,232	\$ 195,636

	Nine months ended September 30,	
	2019	2018
Non-cash financing activities (note 9(b))		
Settlement of a loan through issuance of equity	\$ -	\$ 1,500,000
Interest on convertible note paid through issuance of equity	-	107,014

(b) Restricted cash

In December 2018, pursuant to a loan agreement with Belltown Power Texas, LLC (“Belltown”), the Company provided a stand-by letter of credit (the “SBLC”) of US\$2.76 million on behalf of Belltown and in order for Belltown to post certain collateral for grid connection (note 4(e)). The SBLC was issued by a commercial bank and, at December 31, 2018, \$3,819,480 (US\$2.8 million) of the Company’s cash was held as collateral against the SBLC; this amount has been classified as restricted cash in these Financial Statements.

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 nine months ended September 30, 2019 and 2018

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

4. SECURED LOANS AND ROYALTY INTERESTS

	September 30, 2019	December 31, 2018
Secured Loans – Amortized Cost		
Jade Power (note 4(b))	\$ 3,798,848	\$ 3,750,826
OntarioCo (note 4(d))	4,954,490	-
Other (note 4(e))	-	82,333
	8,753,338	3,833,159
Secured Loans – FVTPL		
Aeolis (note 4(a))	1,112,846	1,121,103
Royalty Interest		
Jade Power (note 4(b))	707,254	739,897
Northland Power Inc. (note 4(c))	1,832,594	-
OntarioCo (note 4(d))	222,697	-
	2,762,545	
Total	\$ 12,628,729	\$ 5,694,159
Non-current portion	\$ 7,575,536	\$ 5,512,652
Current portion	5,053,193	181,507
Total	\$ 12,628,729	\$ 5,694,159

(a) *Secured loan to 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 payments of \$100,000 per annum, 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) *Secured loan to and royalty interest in 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”; and together with the Jade Power Loan, the “Jade Power Transaction”) on certain of Jade Power’s renewable energy generation assets. Jade Power is a Canadian publicly listed trust and an independent power producer that owns and operates facilities that produce electricity from renewable energy sources in eastern Europe.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

The continuity of the Jade Power Loan is as follows:

	Nine months ended September 30,	
	2019	2018
Jade Power Loan		
Beginning balance	\$ 3,596,662	\$ 3,354,133
Accretion	346,224	322,113
Interest received	(190,000)	(190,000)
Ending balance	\$ 3,752,886	\$ 3,486,246
Transaction costs		
Beginning balance	\$ 154,164	\$ 278,642
Amortization	(108,202)	(91,819)
Ending balance	\$ 45,962	\$ 186,823
Net carrying amount - ending balance	\$ 3,798,848	\$ 3,673,069

The continuity of the Jade Power Royalty interest is as follows:

	Nine months ended September 30,	
	2019	2018
Cost		
Beginning and ending balance	\$ 826,944	\$ 826,944
Accumulated depletion		
Beginning balance	\$ 87,047	\$ 43,523
Charge for the period	32,643	32,643
Ending balance	\$ 119,690	\$ 76,166
Net carrying amount - ending balance	\$ 707,254	\$ 750,778

(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.

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

The continuity of royalty interest in the Ontario Solar Projects is as follows:

	Nine months ended September 30,	
	2019	2018
Cost		
Beginning balance	\$ -	\$ -
Addition during the period	1,871,864	-
Ending balance	\$ 1,871,864	\$ -
Accumulated depletion		
Beginning balance	\$ -	\$ -
Charge for the period	39,270	-
Ending balance	\$ 39,270	\$ -
Net carrying amount - ending balance	\$ 1,832,594	\$ -

(d) *OntarioCo*

In May 2019, the Company entered into a secured loan and royalty transaction with a private group of companies in Ontario (“OntarioCo”) on 49 roof-top solar projects (“Roof-Top Solar Project Portfolio”) with a combined generation capacity of 15.7 MW. All projects in the Roof-Top Solar Project Portfolio are qualified under the Ontario Feed-in-Tariff program. Pursuant to the transaction with OntarioCo, the Company provided a \$5,000,000 interest-bearing loan at 5% per annum to OntarioCo for one-year, in exchange for a 1.12% gross revenue royalty on the Roof-Top Solar Project Portfolio. The duration of the royalty ranges between 18 to 19 years, mirroring the remaining life of the portfolio under the Feed-in-Tariff program.

The continuity of the loan advanced to the OntarioCo is as follows:

	Nine months ended September 30,	
	2019	2018
Beginning balance	\$ 4,772,727	\$ -
Accretion	181,763	-
Ending balance	\$ 4,954,490	\$ -

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

The continuity of royalty interest acquired from the OntarioCo is as follows:

	Nine months ended September 30,	
	2019	2018
Cost		
Beginning balance	\$ -	\$ -
Addition during the period	227,273	-
Ending balance	\$ 227,273	\$ -
Accumulated depletion		
Beginning balance	\$ -	\$ -
Charge for the period	4,576	-
Ending balance	\$ 4,576	\$ -
Net carrying amount - ending balance	\$ 222,697	\$ -

(e) *Secured loan – Other*

In December 2018, the Company entered into a loan agreement for US\$2.8 million with a subsidiary of Belltown Power Texas, LLC (“Belltown”) whereby the Company provided \$57,386 (US\$42,050) in a cash advance to Belltown and a US\$2.76 million letter of credit for up to one year on behalf of Belltown, in order for Belltown to post certain collateral for grid connection for 78 MW Rippey solar project (“Rippey Project”) located in Texas. The Company recorded \$21,500 in transaction costs in relation to the Belltown Loan. As a consideration for the loan, the Company received a 1% gross revenue royalty interest in the Rippey Project that is carried at a nominal value in these Financial Statements.

In March 2019, the loan receivable from Belltown was fully repaid and the letter of credit was returned and cancelled. The Company retained the royalty interest in the Rippey Project.

5. INTEREST IN AN ASSOCIATE

In February 2018, the Company’s US affiliate (RER US, note 2(b)), entered into an equity purchase transaction with Alpin Sun GmbH (“Alpin Sun”), whereby RER US acquired a 50% interest in a portfolio of four separate advanced stage development solar projects in Texas, totaling 332 MW (the “Projects”). The ultimate goal of both RER US and Alpin Sun is to develop the Projects to the point where they are ready to build, and then to sell the Projects to a third party to build and operate.

The total investment commitment for the 50% equity investment in the Projects is for US\$5 million (the “Texas Investment”). The Company contributed US\$1 million (“RER Investment”) with the remaining US\$4 million to be contributed by a consortium of private investors. The Texas Investment is structured as a US limited liability company (the “Project Entities”), RER US, which holds the 50% interest in the Projects. The Company is the manager of RER US. In addition to owning a portion of RER US’s 50% ownership in the Projects, the

RE Royalties Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

For the three and nine months ended September 30, 2019 and 2018

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

Company will also receive 50% of a 2% Gross Revenue Royalty payable to RER US for a period of twenty years.

In December 2018, RER US and an arm's-length party entered into two separate sale agreements (the "Sale Agreements") whereby RER US sold its equity interest in two of the four Project Entities for an aggregate price of US\$6 million, based on US\$30,000 per MW. In December 2018, pursuant to the Sale Agreements and upon execution thereof, RER US received US\$1.4 million (the "Down Payment") in cash, representing 23.33% of the total sale proceeds. The remainder of US\$4.6 million (the "Contingent Payments") of the aggregate sale price is receivable in tranches subject to certain milestones leading up to the completion of the projects. As of the date of issuance of these Financial Statements, no Contingent Payment was received by RER US.

Prior to the execution of the Sale Agreements, the Company's royalty interest in the underlying projects was bought-out for US\$300,000, which amount was payable to the Company by RER US at September 30, 2019 (note 6).

The assets and liabilities of RER US are detailed below:

	September 30, 2019	December 31, 2018
Non-current assets	\$ 2,461,000	\$ 2,440,000
Current assets	538,000	2,132,000
Total	\$ 2,999,000	\$ 4,572,000
Net assets	\$ 2,372,000	\$ 3,561,000
Non-current liabilities	–	207,000
Current liabilities	627,000	804,000
Total	\$ 2,999,000	\$ 4,572,000

During the nine months ended September 30, 2019, RER US recorded a net loss of \$196,000 (September 30, 2018 – \$nil), of which \$46,568 (September 30, 2018 – \$nil), representing the Company's share, was recorded in these Financial Statements.

During the nine months ended September 30, 2019, the Company recorded cost recoveries of \$62,917 relating to the Company's management of activities of RER US (September 30, 2018 – \$131,897).

At September 30, 2019, balance receivable from RER US by the Company was \$459,863 (December 31, 2018; \$409,230), which remains current and collectible in the normal course.

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6. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

	September 30, 2019	December 31, 2018
Accrued interest (note 4(e))	\$ –	\$ 46,521
Accrued royalty revenue	193,122	73,748
Royalty receivable from RER US (note 5)	397,260	409,230
Other receivable from RER US (note 5)	62,603	–
Prepaid expenses	27,815	16,032
Other amounts receivable	378,910	11,670
	<u>\$ 1,059,710</u>	<u>\$ 557,201</u>

7. TRADE PAYABLES AND ACCRUED LIABILITIES

	September 30, 2019	December 31, 2018
Trade payables	\$ 209,546	\$ 106,913
Accrued liabilities	16,800	401,013
	<u>\$ 226,346</u>	<u>\$ 507,926</u>

8. 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 2018-Note is accounted for as a compound instrument and upon initial recognition its equity component was 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.

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(b) Issued share capital

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 and for total proceeds of \$17,850.

During the nine months ended September 30, 2018, the Company issued 1,875,000 Common Shares at a deemed value of \$1,500,000 as repayment of a debt. The Company recorded \$94,500 in transaction cost relating to the issuance of these shares as share issuance cost.

The Company issued 2,008,767 Common shares upon conversion of a convertible note and interest accrued thereon.

(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, 2019 and 2018:

Continuity of options	Nine months ended September 30, 2019		Nine months ended September 30, 2018	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Outstanding – beginning balance	1,330,000	\$ 0.82	1,180,000	\$ 0.80
Options granted during the period	30,000	\$ 0.80	-	-
Outstanding – ending balance	1,360,000	\$ 0.82	1,180,000	\$ 0.80

The following table summarizes information on the options outstanding:

Options outstanding Exercise price	September 30, 2019		December 31, 2018	
	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	2.83	1,180,000	3.58
\$ 1.00	150,000	4.00	150,000	4.75
	1,360,000	2.96	1,330,000	3.71

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

Options exercisable Exercise price	September 30, 2019		December 31, 2018	
	Number of options exercisable	Weighted average remaining contractual life (years)	Number of options exercisable	Weighted average remaining contractual life (years)
\$ 0.80	1,180,000	2.83	778,800	3.58
\$ 1.00	50,000	4.00	-	-
	1,230,000	2.88	778,800	3.58

Share purchase warrant reserve

The continuity of the Company's share purchase warrants for the nine months ended September 30, 2019 is as follows:

Expiry date	Exercise price	Number of warrants			
		Opening balance	Issued	Exercised	Ending balance
July 2020	\$0.50	500,000	-	-	500,000
February 2020	\$0.30	62,001	-	(59,500)	2,501
November 2020	\$1.00	18,109	-	-	18,109
Total		580,110	-	(59,500)	520,610

(d) *Distribution to shareholders*

During the nine months ended September 30, 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

At September 30, 2019, the Company recorded a liability of \$321,714 in respect of the cash distribution declared on September 27, 2019.

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.

RE Royalties Ltd.

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Transactions with KMP were as follows:

Remuneration for services rendered	Three months ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Short-term employment benefits	\$ 102,000	\$ 47,000	\$ 282,000	\$ 148,000
Share-based compensation	6,000	65,000	76,000	264,000
Total	\$ 108,000	\$ 112,000	\$ 358,000	\$ 412,000

11. EARNING (LOSS) PER SHARE

The Company presents basic and diluted earning (loss) per share data for its common shares, calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares that were outstanding 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. The share purchase options and warrants (note 9(c)) and the 2018-Note (note 8) were excluded from the calculation of diluted loss per share as they were antidilutive.

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.

(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.

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The Company's financial liabilities are comprised of trade payables and accrued liabilities, convertible note, and distribution payable. Other than the convertible note with the face value of \$500,000, which is payable in the fourth quarter of 2020, the Company's liabilities are due for payment within 12 months from the reporting date. Except for the convertible note, the carrying amounts of the Company's financial liabilities represent the Company's contractual obligations. The contractual obligation relating to the convertible note equals its face value.

(c) *Foreign exchange risk*

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

Based on the Company's U.S. dollar denominated monetary assets and monetary liabilities at September 30, 2019 a 10% increase (decrease) of the value of the U.S. dollar relative to the Canadian dollar would increase (decrease) net income by approximately \$402,000 and other comprehensive income by approximately \$58,000, 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)) and Jade Power (note 4(b)) earn interest at fixed rates, and are therefore not subject to interest rate cash flow risk. The 2018-Note is 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 \$20,000 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, 2019, 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 nine months ended September 30, 2019.

(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 and accumulated deficit. There were no changes in the Company's approach to capital management during the nine months ended September 30, 2019. At September 30, 2019, the Company was not subject to any externally imposed capital requirements.