# RE ROYALTIES LTD.

(Formerly Baetis Ventures Ltd.)

**CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED
December 31, 2018 and 2017

*(Expressed in Canadian Dollars)*

Deloitte LLP
2800 - 1055 Dunsmuir Street
Four Bentall Centre
Vancouver BC V7X 1P4
Canada

Tel: 604-669-4466
Fax: 778-374-0496
www.deloitte.ca

# Independent Auditor's Report

To the Shareholders and the Board of Directors of
RE Royalties Ltd.

## Opinion

We have audited the consolidated financial statements of RE Royalties Ltd (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

## Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Tim Holwill.

/s/ Deloitte LLP

Chartered Professional Accountants
Vancouver, British Columbia
April 29, 2019

## RE Royalties Ltd.

(Formerly Baetis Ventures Ltd.)
**Consolidated Statements of Financial Position**
(Expressed in Canadian Dollars)

| | Note | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|---|
| ASSETS | | | | | |
| Non-current assets | | | | | |
| Secured loans and royalty interest | 5 | $ | 5,512,652 | $ | 5,525,340 |
| Deferred transaction costs | 6 | | – | | 31,193 |
| Interest in an associate | 7 | | 945,419 | | – |
| Amounts receivable | 8 | | – | | 372,988 |
| | | | 6,458,071 | | 5,929,521 |
| Current assets | | | | | |
| Secured loans and royalty interest | 5 | | 181,507 | | 66,696 |
| Amounts receivable and prepaid expenses | 8 | | 557,201 | | 282,309 |
| Restricted cash | 4(b) | | 3,819,480 | | – |
| Cash and cash equivalents | 4(a) | | 8,859,907 | | 909,402 |
| | | | 13,418,095 | | 1,258,407 |
| TOTAL ASSETS | | $ | 19,876,166 | $ | 7,187,928 |
| EQUITY | | | | | |
| Share capital | 12 (b) | $ | 22,181,863 | $ | 3,937,635 |
| Convertible note | | | – | | 1,300,500 |
| Reserves | 12 (c) | | 613,801 | | 115,565 |
| Accumulated deficit | | | (3,902,368) | | (680,242) |
| | | | 18,893,296 | | 4,673,458 |
| LIABILITIES | | | | | |
| Non-current liabilities | | | | | |
| Convertible note | 11(a) | | 474,944 | | – |
| | | | 474,944 | | – |
| Current liabilities | | | | | |
| Trade payables and accrued liabilities | 9 | | 507,926 | | 409,470 |
| Short-term loans | 10 | | – | | 2,000,000 |
| Convertible note | 11(b) | | – | | 105,000 |
| | | | 507,926 | | 2,514,470 |
| TOTAL EQUITY AND LIABILITIES | | $ | 19,876,166 | $ | 7,187,928 |

Nature and continuance of operations (note 1)
Events occurring after the reporting period (note 17)

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

These financial statements are approved for issuance on April 25, 2019 and are signed on the Company's behalf by the following:

*/s/ Bernard Tan* | */s/ Rene Carrier*

Bernard Tan
Director

Rene Carrier
Director

## RE Royalties Ltd.

(Formerly Baetis Ventures Ltd.)

**Consolidated Statements of Comprehensive Loss**

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

| | Note | | Year ended December 31, 2018 | | 2017 |
|---|---|---|---|---|---|
| Revenue and income | | | | | |
| Revenue from royalty interests | 5(b) | $ | 89,402 | $ | 140,346 |
| Gain from royalty interest buyout | 7 | | 409,230 | | – |
| Finance income | 5 | | 520,683 | | 455,143 |
| | | | 1,019,315 | | 595,489 |
| Amortization and depletion | | | | | |
| Amortization of transaction cost | 5 | | 127,216 | | 103,679 |
| Depletion of royalty interest | 5 (b) | | 43,523 | | 43,523 |
| | | | (170,739) | | (147,202) |
| Gross profit | | | 848,576 | | 448,287 |
| Gain on revaluation of financial asset at FVTPL | 5(a) | | 70,128 | | – |
| Gross profit and changes in fair value of financial assets | | | 918,704 | | 448,287 |
| Expenses/(recoveries) | | | | | |
| Legal | | | 2,777 | | 15,716 |
| Accounting and audit | | | 96,621 | | 39,323 |
| Marketing | | | 66,285 | | 11,613 |
| Rent and information technology | | | 38,316 | | 41,968 |
| Consulting | 3 | | 1,134,711 | | 18,929 |
| Regulatory | | | 11,949 | | – |
| Administration | | | 177,078 | | 115,582 |
| Wages and benefits | | | 297,760 | | 115,741 |
| Equity-settled share-based payments | 12(c) | | 337,625 | | 95,565 |
| Cost recoveries | 7 | | (131,356) | | – |
| | | | (2,031,766) | | (454,437) |
| Other income and expenses | | | | | |
| Finance expenses | | | (94,142) | | (280,899) |
| Listing expense | 3 | | (1,660,881) | | – |
| Share of loss of an associate | 7 | | (418,681) | | – |
| Foreign exchange gain (loss) | | | 87,777 | | (1,425) |
| | | | (2,085,927) | | (282,324) |
| Net loss | | $ | (3,198,989) | $ | (288,474) |
| Other comprehensive income | | | | | |
| Items that may be subsequently reclassified to net income | | | | | |
| Foreign exchange translation difference | | | 99,400 | | – |
| Other comprehensive income | | | 99,400 | | – |
| Total comprehensive loss | | $ | (3,099,589) | $ | (288,474) |
| Basic and diluted loss per share | 14 | $ | (0.17) | $ | (0.02) |
| Weighted average number of common shares outstanding | | | 18,841,439 | | 11,901,079 |

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

**RE Royalties Ltd.**

(Formerly Baetis Ventures Ltd.)

**Consolidated Statements of Changes in Equity**

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

| | | Share capital | | | | Reserves | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | **Note** | **Number of shares** | **Amount** | **Subscriptions received** | **Convertible note (note 11(b))** | **Equity-settled share-based payments** | **Share purchase warrants** | **Convertible note (note 11(a))** | **Foreign currency translation reserve** | **Accumulated deficit** | **Total equity** |
| Balance at January 1, 2017 | | 10,735,172 | $ 3,003,335 | $ 120,000 | $ – | $ – | $ – | $ – | $ – | $ (391,768) | $ 2,731,567 |
| Net loss for the period | | – | – | – | – | – | – | – | – | (288,474) | (288,474) |
| Other comprehensive income for the period | | – | – | – | – | – | – | – | – | – | – |
| Total comprehensive loss | | – | – | – | – | – | – | – | – | (288,474) | (288,474) |
| Issuance of common shares at $0.80 per share, net of issuance costs | 12 (b) | 1,175,000 | 889,300 | (120,000) | – | – | – | – | – | – | 769,300 |
| Issuance of common shares as financing cost | 12 (b) | 56,250 | 45,000 | – | – | – | – | – | – | – | 45,000 |
| Issuance of convertible note | 11(b) | – | – | – | 1,300,500 | – | – | – | – | – | 1,300,500 |
| Issuance of share purchase warrants pursuant to short-term loans | 10 | – | – | – | – | – | 20,000 | – | – | – | 20,000 |
| Equity-settled share-based payments | 12(c) | – | – | – | – | 95,565 | – | – | – | – | 95,565 |
| **Balance at December 31, 2017** | | 11,966,422 | $ 3,937,635 | $ – | $ 1,300,500 | $ – | $ 20,000 | $ – | $ – | $ (680,242) | $ 4,673,458 |
| 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 | | – | – | – | – | – | – | – | – | (3,198,989) | (3,198,989) |
| Other comprehensive income for the period | | – | – | – | – | – | – | – | 99,400 | – | 99,400 |
| Total comprehensive loss | | – | – | – | – | – | – | – | 99,400 | (3,198,989) | (3,099,589) |
| Issuance of common shares as settlement of a loan | 10 | 1,875,000 | 1,405,500 | – | – | – | – | – | – | – | 1,405,500 |
| Convertible note converted into common shares | 11(b) | 2,008,767 | 1,407,514 | – | (1,300,500) | – | – | – | – | – | 107,014 |
| Issuance of common shares pursuant to private placements | 12 (b) | 13,223,700 | 13,136,080 | | – | – | – | – | – | – | 13,136,080 |
| Issuance of warrants pursuant to a private placement | 12(c) | – | (6,200) | – | – | – | 6,200 | – | – | – | – |
| Issuance of common shares as finder's fee | 3 | 200,000 | 200,000 | – | – | – | – | – | – | – | 200,000 |
| Deemed issuance of common shares pursuant to the RTO | 1 & 3 | 1,333,334 | 1,333,334 | – | – | – | – | – | – | – | 1,333,334 |
| Issuance of warrants pursuant to the Arrangement | 3 | – | – | – | – | – | 44,700 | – | – | – | 44,700 |
| Issuance of common shares upon warrants exercised at $0.50 | 12 (b) | 1,500,000 | 765,000 | – | – | – | (15,000) | – | – | – | 750,000 |
| Issuance of common shares upon warrants exercised at $0.30 | 12 (b) | 4,666 | 3,000 | – | – | – | (1,600) | – | – | – | 1,400 |
| Convertible note – equity component | 11(a) | – | – | – | – | – | – | 26,911 | – | – | 26,911 |
| Equity-settled share-based payments | 12(c) | – | – | – | – | 337,625 | – | – | – | – | 337,625 |
| **Balance at December 31, 2018** | | 32,111,889 | $ 22,181,863 | $ – | $ – | $ 433,190 | $ 54,300 | $ 26,911 | $ 99,400 | $ (3,902,368) | $ 18,893,296 |

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

## RE Royalties Ltd.

(Formerly Baetis Ventures Ltd.)

**Consolidated Statements of Cash Flows**

(Expressed in Canadian Dollars)

| | | Year ended December 31, | |
|---|---|---|---|
| | **Note** | **2018** | **2017** |
| **Operating activities** | | | |
| Net loss | | $ (3,198,989) | $ (288,474) |
| Adjustments for: | | | |
| Amortization of transaction costs | 5 | 127,216 | 103,679 |
| Depletion of royalty interest | 5(b) | 43,524 | 43,523 |
| Accretion and accrued interest on secured loans | 5 | (256,337) | (289,077) |
| Gain on revaluation of financial asset at FVTPL | 5(a) | (70,128) | – |
| Finance expenses | | 94,143 | 285,000 |
| Equity-settled share-based payments | 12(c) | 337,625 | 95,565 |
| Share of loss of an associate | | 418,681 | |
| Listing expense | 3 | 1,441,192 | – |
| Unrealized exchange loss (gain) | | (77,241) | – |
| Changes in working capital items: | | | |
| Amounts receivable and prepaid expenses | | (4,763) | (527,142) |
| Trade payables and accrued liabilities | | 303,221 | 92,662 |
| **Cash used in operating activities** | | (841,856) | (484,264) |
| **Investing activities** | | | |
| Restricted cash | 4(b) | (3,743,937) | – |
| Secured loans advanced | 5 | (57,386) | (3,064,166) |
| Acquisition of royalty interest | 5(b) | – | (735,834) |
| Proceeds from repayment of secured loan at amortized cost | 5(a) | – | 39,221 |
| Proceeds from repayment of secured loan at FVTPL | 5(a) | 101,729 | – |
| Acquisition of interest in an associate | 7 | (1,264,700) | – |
| Cash acquired upon RTO | 3 | 136,842 | – |
| Deferred transaction costs | 6 | (96,532) | (193,419) |
| **Cash used in investing activities** | | (4,923,984) | (3,954,198) |
| **Financing activities** | | | |
| Proceeds from issuance of common shares, net of issuance cost | 12(b) | 13,136,080 | 769,300 |
| Proceeds from exercise of warrants | 12(c) | 751,400 | – |
| (Repayment of) proceeds from short-term loans | 10 | (500,000) | 2,000,000 |
| Fee relating to the conversion of loan into common shares | 10 | (94,500) | – |
| Proceeds from the issuance of convertible notes | 11 | 500,000 | 1,405,500 |
| Interest paid | 10 | (78,333) | (220,000) |
| **Cash provided by financing activities** | | 13,714,647 | 3,954,800 |
| **Increase (decrease) in cash and cash equivalents** | | 7,948,807 | (483,662) |
| Effects of exchange rate fluctuations on cash held | | 1,698 | – |
| Cash and cash equivalents, opening balance | | 909,402 | 1,393,064 |
| **Cash and cash equivalents, closing balance** | | $ 8,859,907 | $ 909,402 |

**Supplemental cash flow information (note 4(a))**

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

## 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 consolidated 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 years ended December 31, 2018 and 2017. The Transaction has been accounted for as a reverse take-over (RTO) as further described herein in Note 3. 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 years presented, unless otherwise stated.

### (a) *Statement of compliance*

These Financial Statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS"), effective for the Company's reporting year ended December 31, 2018.

### (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 5(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.

RER US 1 LLC ("RER US") was incorporated on December 13, 2017 in the State of Delaware for the purpose of completing the transactions described in Note 7. At December 31, 2017 RER US was a wholly-owned subsidiary of the Company, which owned all equity units issued for the purposes of the incorporation of RER US. During the year ended December 31, 2018, as a result of issuance of additional units by RER US (note 7), the Company ceased to hold a controlling interest in RER US which was no longer consolidated in these Financial Statements.

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*

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, and expenses. Actual results may differ from these estimates. The impact of such estimates are pervasive throughout the Financial Statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Changes in subjective inputs and assumptions can materially affect accounting estimates.

Specific areas where significant estimates or judgements exist are:

<u>Estimates:</u>

- Accrued liabilities (note 9);

- Valuation of secured loans and royalty interest (note 5);
- Depletion of royalty interest (note 5(b));
- Fair value of loan to Aeolis Wind Power Corporation (note 5(a));
- Fair value estimates of the liability portion of the short-term loans (note 10) and convertible note (note 11(a)); and
- Inputs into the Black-Scholes model for options and warrant valuation (note 12(c)).

Judgements:

- Assessment of evidence as to whether a financial asset may be impaired. No evidence of impairment was identified.

*(d) Foreign currency*

The functional currency is the currency of the primary economic environment in which an entity operates. The functional and presentation currency of the Company and its wholly-owned subsidiary, RER Canada, is the Canadian Dollar. The functional currency of RER US is the US dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on dates of transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date. Non-monetary assets and liabilities carried at fair value that are denominated in foreign currencies are translated at rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated. Gains and losses arising on translation are included in profit or loss for the year.

To translate the Company's interest in RER US to the presentation currency, all assets and liabilities are translated using the exchange rate as of the reporting date and all income and expenses are translated using the average exchange rates during the period. All resulting exchange differences are recognized in other comprehensive income (loss).

*(e) Financial instruments*

The classification of financial assets is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

All financial assets that are not classified at amortised cost or fair value through other comprehensive income ("FVTOCI") are measured at fair value through profit or loss ("FVTPL") with net gains and losses on subsequent revaluation and income and expenses, including any transaction cost, associated with such assets recognised in profit or loss. All derivative financial assets and hybrid financial instruments with embedded derivatives are classified at FVTPL.

For a financial asset to be measured at amortized cost, it must meet the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Upon initial recognition, financial assets at amortized cost are measured at fair value plus, transaction costs that are directly attributable to its acquisition. Subsequently, these financial assets are measured at amortised cost, using the effective interest method, and net of any impairment loss. Interest income, foreign exchange gains and losses, impairment losses, and gain or losses on derecognition are recognised in profit or loss.

The Company has no financial assets which are classified as at FVTOCI.

The Company's financial assets at amortized cost comprise loan receivable from Blockchain Power Trust (note 5(b)), loan receivable from Belltown (note 5(c)), restricted cash (note 4), other amounts receivable (note 8), and cash and cash equivalents.

The Company's investment in a secured loan to Aeolis Wind Power Corporation (note 5(a)) is classified as at FVTPL.

The Company classifies its non-derivative financial liabilities at amortized cost that are recognized initially at fair value net of any directly attributable transaction costs.

When a compound financial instrument is issued, its initial carrying amount is allocated to its equity and liability components, the equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the liability component.

Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities measured at amortized cost is comprised of trade payable and accrued liabilities, short-term loan, and the liability portion of the convertible note.

The Company has no derivative financial liabilities.

Impairment of financial assets:

The Company recognises an allowance for expected credit losses ("ECL") for all debt instruments at amortized cost. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages.

- For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months.

- For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default.

The Company considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

*(f)* *Share capital*

Common shares are classified as equity. Transaction costs directly attributable to the issuance of common shares are recognized as a deduction from equity, net of any tax effects.

*(g)* *Loss per share*

The Company presents basic and diluted loss per share information for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares. 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.

*(h)* *Income taxes*

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The following temporary differences are not provided for:

- goodwill not deductible for tax purposes;
- the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and
- differences relating to investments in subsidiaries, associates, and joint ventures to the extent that they will probably not reverse in the foreseeable future.

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

*(i) Revenue*

During the years ended December 31, 2018 and 2017, the Company's revenue comprised revenue earned from contracts with customers under and related to its royalty interests. Performance obligation is considered to be met and revenue is recognized when each unit of power is generated and delivered to its customer by the operator of the underlying asset through an interconnection.

Revenue is measured at the fair value of the consideration received or receivable when management can reliably estimate the amount, pursuant to the terms of the royalty agreement. Differences between estimates and actual amounts are adjusted and recorded in the period that the actual amounts are known.

*(j) Royalty interest*

Royalty interests are recorded at cost and capitalized as tangible assets. They are subsequently measured at cost less accumulated depletion and accumulated impairment losses, if any. Project evaluation costs that are not related to a specific agreement are expensed in the period incurred.

Producing royalty interests are depleted over the life of the property (note 5(b)) to which the interest relates using the straight line method.

*(k) Share-based payment transactions*

The Company operates an equity-settled share-based option plan for its directors, officers, employees and service providers. The fair value of share purchase options granted is recognized as an expense with a corresponding increase in the equity-settled share-based payments reserve in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes or provides services similar to those performed by a direct employee.

The fair value is measured at grant date for each tranche, which is expensed on a straight line basis over the vesting period, with a corresponding increase in equity. The fair value of share purchase options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted and forfeiture rates as appropriate. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

*(l)* *Impairment*

At the end of each reporting period the carrying amounts of the Company's non-financial assets are reviewed to determine whether there is any indication that these assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

At December 31, 2018, there was no indication that the Company's non-financial assets were impaired.

*(m)* *Investments in associates*

Investments over which the Company exercises significant influence but does not control or jointly control are associates. Investments in associates are accounted for using the equity method, except when classified as held for sale.

On acquisition, an equity method investment is initially recognized at cost. The carrying amount of equity method investments includes goodwill identified on acquisition, net of any accumulated impairment losses. The carrying amount is adjusted by the Company's share of post-acquisition income or loss; depreciation, amortization or impairment of the fair value adjustments made on the underlying statement of financial position at the date of acquisition; dividends; cash contributions; and the Company's share of post-acquisition movements in other comprehensive income.

Outlined below is information related to the Company's investments in associates as at December 31, 2018:

| Entity | Place of business | Entity type | Economic interest |
|---|---|---|---|
| RER US 1 LLC (note 7) | Delaware, USA | Associate | 24.94 % |

At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing at that date. Gains or losses on translation are reported in other comprehensive income.

*(n)* *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 December 31 2018 and 2017, except for the royalty interest in renewable assets in Romania (note 5(b)) all of the Company's non-current non-financial assets were held in Canada.

(Expressed in Canadian Dollars, unless otherwise stated)

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

| | Royalty Income | Finance Income | Royalty Buyout | Total Revenue |
|---|---|---|---|---|
| Year ended December 31, 2018 | | | | |
| Europe (note 5(b)) | $ 89,402 | $ 504,585 | $ – | $ 593,987 |
| North America (note 7) | – | 16,098 | 409,230 | 425,328 |
| Total | $ 89,402 | $ 520,683 | $ 409,230 | $ 1,019,315 |
| Year ended December 31, 2017 | | | | |
| Europe (note 5(b)) | $ 140,346 | $ 455,143 | $ – | $ 595,489 |
| North America (note 7) | – | – | – | – |
| Total | $ 140,346 | $ 455,143 | $ – | $ 595,489 |

*(o) Changes in significant accounting policies*

<u>IFRS 9, *Financial Instruments*</u>

On January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* ("IFRS 9") which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") in its entirety.

The Company has applied the changes in accounting policies retrospectively; however in accordance with the transitional provisions in IFRS 9, comparative figures have not been restated. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

(Expressed in Canadian Dollars, unless otherwise stated)

On the date of initial application, January 1, 2018, the financial instruments of the Company were as follows, with any reclassification noted:

| | Measurement Basis | | Carrying Amount | | |
|---|---|---|---|---|---|
| | Original (IAS 39) | New (IFRS 9) | Original (IAS 39) | New (IFRS 9) | Difference Gain/(loss) |
| **Non-current financial assets** | | | | | |
| Secured loan – Aeolis (note 5(a)) | Amortized cost | FVTPL | 1,109,144 | 1,054,517 | (54,627) |
| Secured loan – Blockchain (note 5(b)) | Amortized cost | Amortized cost | 3,632,775 | 3,632,775 | – |
| Deferred transaction costs | Amortized cost | Amortized cost | 31,193 | 31,193 | – |
| Amounts receivable | Amortized cost | Amortized cost | 372,988 | 372,988 | – |
| **Current financial assets** | | | | | |
| Secured loan – Aeolis (note 5(a)) | Amortized cost | FVTPL | 66,696 | 98,186 | 31,490 |
| Amounts receivable | Amortized cost | Amortized cost | 259,567 | 259,567 | – |
| Cash | Amortized cost | Amortized cost | 909,402 | 909,402 | – |
| **Financial liabilities** | | | | | |
| Trade payables and accrued liabilities | Amortized cost | Amortized cost | 409,470 | 409,470 | – |
| Short-term loans | Amortized cost | Amortized cost | 2,000,000 | 2,000,000 | – |
| Convertible note | Amortized cost | Amortized cost | 105,000 | 105,000 | – |
| | | | | | (23,137) |

On the date of adoption of IFRS 9, the Company restated its opening accumulated deficit in the Statement of Changes in Equity by $23,137, representing the loss on revaluation of the Aeolis Loan (note 5(a)) upon reclassification of the asset from amortized cost to as at FVTPL.

IFRS 15, *Revenue from Contracts with Customers*

On January 1, 2018, the Company adopted IFRS 15, *Revenue from Contracts with Customers* ("IFRS 15"). IFRS 15 supersedes IAS 11, *Construction Contracts*, IAS 18, *Revenue ("IAS 18")*, IFRIC 13, *Customer Loyalty Programs*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and SIC 31, *Revenue – Barter Transactions Involving Advertising Services*.

IFRS 15 establishes a single five-step model framework for determining the nature, amount, timing and certainty of revenue and cash flows arising from a contract with a customer.

IAS 18 specified the accounting treatment for the recognition and measurement of interest and dividends. Interest and dividend income are excluded from the scope of IFRS 15. Instead, the relevant recognition and measurement requirements have been moved to IFRS 9.

The adoption of IFRS 15, applied retrospectively, did not have a significant impact on the recognition or measurement of the Company's revenue from its customers, except that finance income from the Blockchain Loan (note 5(b)) is no longer classified as revenue under IFRS 15.

*(p) Accounting standards, amendments and revised standards not yet effective*

<u>IFRS 16, *Leases*</u>

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 Company is currently assessing the potential impact of IFRS 16 on its financial statements.

<u>IFRIC 23, *Uncertainty over income tax treatments*</u>

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 Company is in the process of assessing the impact of IFRIC 23 on the Financial Statements.

## 3. REVERSE TAKEOVER

The Transaction (note 1) was completed pursuant to a plan of arrangement (the "Arrangement") dated May 31, 2018 between Baetis Ventures Ltd. (the "CPC") and RE Royalties Ltd (the "Legal Acquiree") whereby the former issued 30,466,889 of its common shares for 100% of the issued and outstanding common shares of the latter on a one-for-one basis. The Transaction resulted in a reverse takeover (RTO) (note 3) of the CPC by the Legal Acquiree as, immediately after the completion of the Transaction, the shareholders of the Legal Acquiree owned 96% of RER.

Pursuant to the Arrangement, the Legal Acquiree and a wholly-owned subsidiary of the CPC amalgamated to form a new company under the corporate name RE Royalties (Canada) Ltd. ("RER Canada"), which would carry on the business previously carried on by the Legal Acquiree.

Pursuant to the term of the Arrangement and concurrently with the Transaction, the CPC completed a consolidation of its common shares at a ratio of three (3) existing common shares for one (1) post-consolidation common share (the "Consolidation"). The CPC also completed a private placement of 307,000 of its common shares at $1.00 per share. After the Consolidation and before the CPC's private placement, the CPC had 1,333,334 common shares issued and outstanding and 66,667 share purchase warrants outstanding.

Prior to the completion of the Transaction, in October 2018, the Legal Acquiree completed a private placement of 12,916,700 of its common shares at $1.00 per share (note 12(b)). Immediately prior to the RTO, the capital structure of RE Royalties Ltd. comprised the following: (i) 30,466,889 issued and outstanding common shares; (ii) warrants exercisable for 500,000 common shares at $0.50 per share; and (iii) stock options exercisable for 1,180,000 common shares at $0.80 per share.

During the year ended December 31, 2018, the Company recorded consulting expenses of $1,134,711 relating to certain consulting engagements with third-party consultants to assist in the Company's financing activities.

Upon completion of the Transaction (note 1), the shareholders of the Legal Acquiree owned approximately 96% of the issued and outstanding common shares of the Company. For accounting purposes the Transaction is considered as a "reverse takeover". A reverse takeover transaction involving a non-public operating entity and non-operating public company is in substance a capital transaction, rather than a business combination.

These Financial Statements are presented as a continuation of the Legal Acquiree but are issued in the name of the Company as a legal parent. The Transaction has been measured at the fair value of the shares and warrants that are deemed to have been issued to the Company's historical shareholders. Accordingly, the transaction has been recorded in these Financial Statements using a basis of accounting as summarized below:

a) The historical equity of the Company has been eliminated and the excess of the fair value of deemed issuance of the equity instruments over the fair value of the net assets acquired has been recorded as listing expense in net loss for the period

b) The accumulated deficit and other equity balances presented in these Financial Statements are those of the Legal Acquiree;

c) The assets and liabilities of the Legal Acquiree are included in these Financial Statements on pre-transaction basis of accounting;

d) The net assets of the Company were measured at their estimated fair value on the date of the Transaction; and

e) Comparative information presented in these financial statements is that of the Legal Acquiree.

(Expressed in Canadian Dollars, unless otherwise stated)

The following summarizes the basis of accounting for the reverse takeover described above:

| | |
|---|---|
| Fair value of equity instruments deemed to be issued pursuant to the Transaction | |
| Common shares | $ 1,333,334 |
| Share purchase warrants (note 12(c)) | 44,700 |
| Total amount recorded in equity in these Financial Statements | 1,378,034 |
| Less: Cash held in Baetis Ventures Ltd. immediately before the Transaction | (136,842) |
| Excess fair value recorded as listing expenses | 1,241,192 |
| | |
| Other listing expenses | |
| Finder's fee paid through issuance of shares | 200,000 |
| Other listing fees and expenses | 219,689 |
| | 419,689 |
| | |
| Total listing expense | $ 1,660,881 |

## 4. CASH AND CASH EQUIVALENTS, AND RESTRICTED CASH

### (a) Cash and cash equivalents

| | Year ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Components of cash and cash equivalents: | | |
| Cash held in business accounts | $ 2,859,907 | $ 909,402 |
| Cash equivalents held in Guaranteed Investment Certificates | 6,000,000 | – |
| Total | $ 8,859,907 | $ 909,402 |
| | | |
| Interest received | | |
| Interest received on secured loan classified in operating activities | $ 190,000 | $ 155,779 |
| Interest on cash and cash equivalent classified in operating activities | 69,318 | 9,587 |
| Total | $ 259,318 | $ 165,366 |
| | | |
| Non-cash financing activities | | |
| Settlement of a loan through issuance of equity (note 10) | $ 1,500,000 | $ – |
| Interest on convertible note paid through equity (note 11(b)) | 107,014 | – |
| Warrants issued pursuant to a private placement (note 3) | 6,200 | – |
| Issuance of common shares as finder's fee (note 3) | 200,000 | – |
| Deemed issuance of equity pursuant to the Transaction (note 3) | 1,378,034 | – |
| Common shares issued as financing fee (note 10) | – | 45,000 |

(Expressed in Canadian Dollars, unless otherwise stated)

A reconciliation of liabilities arising from financing activities during the year ended December 31, 2018 is as follows:

| Year ended December 31, 2018 | Beginning Balance | Cash flows | Non-cash (Issuance of Equity) | Ending Balance |
|---|---|---|---|---|
| Non-current liabilities | | | | |
| Convertible note | $ – | $ 500,000 | $ – | $ 500,000 |
| Current liabilities | | | | |
| Short-term loans | 2,000,000 | (500,000) | (1,500,000) | – |
| Convertible note | 105,000 | – | (105,000) | – |
| Total | $ 2,105,000 | $ – | $ (1,605,000) | $ 500,000 |

(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 5(c)). 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.

After the end of the current reporting period, in March 2019, the loan receivable from Belltown was repaid in full and the SBLC was cancelled releasing the restriction on the cash in March 2019.

(Expressed in Canadian Dollars, unless otherwise stated)

## 5. SECURED LOANS AND ROYALTY INTERESTS

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| **Secured Loans – Amortized Cost** | | |
| Aeolis (note 5(a)) | $ – | $ 1,175,840 |
| Blockchain (note 5(b)) | 3,750,826 | 3,632,775 |
| Other (note 5(c)) | 82,333 | – |
| Total | 3,833,159 | 4,808,615 |
| **Secured Loans – FVTPL** | | |
| Aeolis (note 5(a)) | 1,121,103 | – |
| **Royalty Interest** | | |
| Blockchain Power Trust (note 5(b)) | 739,897 | 783,421 |
| Total | $ 5,694,159 | $ 5,592,036 |
| Non-current portion | $ 5,512,652 | $ 5,525,340 |
| Current portion | 181,507 | 66,696 |
| Total | $ 5,694,159 | $ 5,592,036 |

### (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 ("Aeolis Royalty"). The term of the Aeolis Loan expires on July 31, 2035.

Aeolis is the owner of a gross revenue royalty interest in the Bear Mountain Wind Limited Partnership ("BMWLP"). BMWLP is an indirect wholly owned subsidiary of AltaGas Ltd. and owns the 102 MW Bear Mountain Wind Park near Dawson Creek, British Columbia. The wind park is fully connected to the BC power grid and the power from the project is sold to BC Hydro under a 25-year contract. The Aeolis Royalty payments to the Company under the Aeolis Loan are paid from Aeolis' gross revenue royalty interest received from BMWLP. Aeolis has also assigned its full royalty interest to the Company as security for the Aeolis Loan and BMWLP has executed an irrevocable direction to pay the royalty into an escrow account that the Company will control in the event of default.

On the date of adoption of IFRS 9, the Aeolis Loan was reclassified as FVTPL (note 2)). Fair value was determined by discounting future cash flows at rates applicable to the term of each cash flow.

*(b) Secured loan to and royalty interest in Blockchain Power Trust*

In January 2017, the Company provided Blockchain Power Trust ("Blockchain"; formerly Transeastern Power Trust) a three-year, non-revolving secured loan (the "Blockchain Loan") and received a twenty-year gross revenue royalty (the "Blockchain Royalty"; and together with the Blockchain Loan, the "Blockchain Transaction") on certain of Blockchain's renewable energy generation assets. Blockchain 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.

The Blockchain Loan is a three year, $3.8 million loan, with semi-annual interest payments at 5% per annum and a full principal repayment at maturity. The Blockchain Loan may be extended for a fourth year at Blockchain's option, and in this event, the interest rate increases to 7% per annum for the fourth year.

The Blockchain Royalty is an annual royalty of 1.14% of the gross revenue earned by Blockchain on its portfolio of renewable energy projects. The Blockchain Royalty is payable to the Company for twenty years, including the years that the Blockchain Loan is outstanding. The Blockchain Royalty will be paid in Canadian dollars at the prevailing Euro exchange rate at the time payment is due. The Blockchain Royalty is calculated based on gross revenues earned on three operational hydro projects (5.1MW), two operational solar projects (16.6MW) and one operational wind project (17MW).

The gross revenue for the purpose of the Blockchain Royalty is equal to the sum of all revenues in the fiscal year recognized by Blockchain with respect to the applicable projects, calculated in a consistent basis and in accordance with IFRS, in respect of:

a) the sale of electricity energy;
b) the sale of green certificates (or equivalent renewable incentive credits);
c) any insurance proceeds received as a result of business interruption; and
d) any liquidated damages.

Upon initial recognition, the Company recorded the Blockchain Loan at its fair value and the Blockchain Royalty interest at residual value derived by subtracting the fair value of the Blockchain Loan from the initial investment of $3.8 million. The transaction cost has been allocated to the two components in the ratio of the values assigned upon initial recognition.

(Expressed in Canadian Dollars, unless otherwise stated)

The continuity of the Blockchain Loan is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Blockchain Loan | | |
| Balance, beginning of year | $ 3,354,133 | $ – |
| Fair value at initial recognition | – | 3,064,167 |
| Accrual of interest | 432,529 | 384,966 |
| Proceeds from semi-annual interest payments | (190,000) | (95,000) |
| Balance, end of year | 3,596,662 | 3,354,133 |
| Transaction costs | | |
| Balance, beginning of year | 278,642 | – |
| Transaction costs attributable to the loan component (note 6) | – | 379,400 |
| Amortization | (124,478) | (100,758) |
| Balance, end of year | $ 154,164 | $ 278,642 |
| Net carrying amount, end of year | $ 3,750,826 | $ 3,632,775 |

The continuity of the Blockchain Royalty interest is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Royalty interest | | |
| Beginning balance | $ 826,944 | $ – |
| Additions | – | 826,944 |
| Ending balance | $ 826,944 | $ 826,944 |
| Accumulated depletion | | |
| Beginning balance | $ 43,523 | $ – |
| Charge for the year | 43,524 | 43,523 |
| Ending balance | $ 87,047 | $ 43,523 |
| Net carrying amount | $ 739,897 | $ 783,421 |

*(c) 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

(Expressed in Canadian Dollars, unless otherwise stated)

$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 $27,686 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.

After the end of the current reporting period, 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.

## 6. DEFERRED TRANSACTION COSTS

Deferred transaction costs primarily represents due-diligence costs relating to potential acquisition of royalty interests which are in-progress but have not yet been completed. Deferred transaction costs on acquisitions where the Company have chosen not to proceed on are expensed.

The continuity of the amounts in deferred transaction costs is as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Balance, beginning of year | $ 31,193 | $ 544,500 |
| Additions during the year | – | 69,610 |
| Recoveries | – | (112,407) |
| Amounts reallocated to secured loan (note 5(b)) | – | (379,400) |
| Amounts reallocated to royalty interest (note 5(b)) | – | (91,110) |
| Derecognition of asset amounts after discontinuation of consolidation (note 2(b)) | (31,193) | – |
| Balance, end of year | $ – | $ 31,193 |

## 7. 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.

(Expressed in Canadian Dollars, unless otherwise stated)

In addition to owning a portion of RER US's 50% ownership in the Projects, the Company will also receive 50% of a 2% Gross Revenue Royalty payable to RER US for a period of twenty years, on any revenue generated by any of the Projects. Revenue is defined to include electricity sales, renewable credits, insurance proceeds and liquated damages/warranty claims, if any.

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.

Upon execution of the Sale Agreements, RER US derecognized its investment in the underlying two Project Entities. However, as of December 31, 2018, RER US had recognized only the Down Payment and had deferred the recognition of the Contingent Payments to be recognized upon completion of the related milestones.

Accordingly, during the year ended December 31, 2018, RER US recorded a net loss as per the following.

| | | |
|---|---|---|
| Total sale price | US$ | 6,000,000 |
| Less: aggregate carrying amount derecognized upon execution of the Sale Agreements | | (2,571,300) |
| Excess of the total sale price over the carrying amount | | 3,428,700 |
| Less: the aggregate amount of the Contingent Payments not recognized during the year | | (4,600,000) |
| Loss recognized during the year | US$ | (1,171,300) |

Prior to the execution of the Sale Agreements, the Company's royalty interest in the underlying projects was bought-out for $409,230 (US$300,000), which has been recognized in these Financial Statements as income from royalty buyout.

The assets and liabilities of RER US are detailed below:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Non-current assets | $ 2,440,000 | $ – |
| Current assets | 2,132,000 | – |
| Total | $ 4,572,000 | $ – |
| | | |
| Net assets | $ 3,561,000 | $ – |
| Non-current liabilities | 207,000 | – |
| Current liabilities | 804,000 | – |
| Total | $ 4,572,000 | $ – |

(Expressed in Canadian Dollars, unless otherwise stated)

For the year ended December 31, 2018, RER US recorded a net loss of $1,679,000 (2017 – $nil), including the loss recognized upon execution of the Sale Agreements.

For the year ended December 31, 2018, the Company recorded $418,681 (2017 – $nil) in its share of loss in RER US.

During the year ended December 31, 2018, the Company recorded cost recoveries of $131,356 relating to the Company's management of activities of RER US.

## 8. AMOUNTS RECEIVABLE AND PREPAID EXPENSES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Non-current | | |
| Refundable deposits and advances (note 7) (i) | $ – | $ 372,988 |
| Current | | |
| Sales tax receivable | $ – | $ 1,194 |
| Accrued interest (note 5(c)) | 46,521 | – |
| Accrued Blockchain Royalty revenue (note 5(b)) | 73,748 | 140,346 |
| Royalty receivable from RER US (note 7) | 409,230 | – |
| Prepaid expenses | 16,032 | 22,742 |
| Other amounts receivable | 11,670 | 118,027 |
| | $ 557,201 | $ 282,309 |
| | $ 557,201 | $ 655,297 |

(i) This amount includes various deposits, fees, and other costs provided or incurred by the Company in relation to and before completion of the transaction described in note 7. Upon completion of the aforesaid transaction, these amounts were transferred to interest in an associate.

## 9. TRADE PAYABLES AND ACCRUED LIABILITIES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade payables | $ 106,913 | $ 354,790 |
| Accrued liabilities | 401,013 | 54,680 |
| | $ 507,926 | $ 409,470 |

## 10. SHORT-TERM LOANS

In January 2017, the Company entered into a loan agreement (the "Loan") with two arm's length private parties (collectively the "Lenders"), whereby an aggregate principal sum of $2,000,000 was advanced to the Company for a 6-month term and at an interest rate of 10% per annum. The Loan was secured by a general security agreement and pledge of the Company's assets. Pursuant to the Loan, the Company issued 2,000,000 of its share purchase warrants to the Lenders with an expiry term of two years and an exercise price of $0.80 per share.

In July 2017, the Loan was extended for an additional 6-month term and the interest rate was increased to 12% per annum and interest was paid in advance. The warrants issued pursuant to the original term of the Loan were cancelled and replaced with 2,000,000 common share purchase warrants with an expiry term of three years and an exercise price of $0.50 per common share (note 12(c)).

Upon initial recognition, the Loan was recorded at its fair value, discounted at an effective interest rate of 12%, with the residual amount of initial advance recorded within equity as share-purchase warrant reserve (note 12(c)).

In February 2018, $1,500,000 of the Loan was settled through the issuance of 1,875,000 Common Shares of the Company at $0.80 per share (note 12(b)). The Company paid a fee $94,500 in relation to this conversion of the Loan. The term of remainder of the Loan with principal sum of $500,000 was extended on customary terms for an additional nine-month term and was fully repaid in October 2018.

## 11. CONVERTIBLE NOTES

### (a) *November 2018*

In November 2018, following the closing of the Transaction (note 1), 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.

### (b) *July 2017*

In July 2017, the Company issued a $1,500,000 unsecured convertible note (the "2017-Note") to an arm's length party for a 12-month term and at an interest rate of 7% per annum. The face value of the 2017-Note was only convertible into common shares of the Company at a price of $0.80 per share at the earlier of: (i) 12 months or (ii) upon the Company completing a listing of its shares on a publicly-traded Canadian stock exchange. The 2017-Note, including interest thereon, was converted into the Company's common shares in July 2018.

In 2017, the Company recorded the amount of interest payable in cash on the Convertible Note as a financial liability and the residual transaction amount, net of transaction cost, as equity.

## 12. 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*

The following summarizes the changes in the Company's share capital during the year ended December 31, 2018:

i) 1,333,334 Common Shares were deemed to be issued pursuant to the Transaction (note 1) and under reverse takeover accounting (note 3).

ii) 13,223,700 Common Shares were issued pursuant to private placements (together referred to as the "2018-PP") at $1.00 per Common Share for aggregate gross proceeds of $13,223,700 and net proceeds of $13,136,080, net of issuance cost of $87,620. Additionally, the Company issued 18,109 warrants (note 12(c)) as finder's fee. The 2018-PP comprises the following:

   a. 12,916,700 shares were issued by the Legal Acquiree prior to the Transaction in October 2018;

   b. 307,000 shares were issued concurrently with the Transaction in November 2018.

iii) 200,000 Common Shares were issued as finder's fee for the Transaction;

iv) 1,500,000 Common Shares were issued upon exercise of warrants for $750,000 at $0.50 per share (note 12(b));

v) 4,666 Common Shares were issued upon exercise of warrants for $1,400 at $0.30 per share (note 12(b));

vi) 1,875,000 Common Shares were issued at a deemed value of $1,500,000 as repayment of a debt (note 10). The company recorded $94,500 in transaction cost relating to the issuance of these shares as share issuance cost.

vii) 2,008,767 Common Shares were issued upon conversion of the 2017-Note (note 11(b)) and interest accrued thereon.

(Expressed in Canadian Dollars, unless otherwise stated)

During the year ended December 31, 2017, the Company issued the following Common Shares:

i) 1,175,000 Common Shares were issued at $0.80 per share for aggregate gross proceeds of $940,000 and net proceeds of $889,300 after deducting aggregate finders' fees of $50,700 as share issuance cost.

ii) 56,250 Common Shares were issued as financing costs at a deemed value of $45,000.

*(c) Reserves*

Equity-settled share-based payments reserve

The Company's stock option compensation plan (the "Option Plan") allows it to grant options exercisable to acquire up to a total of 10% of the issued and outstanding shares of the Company at any one time, subject to regulatory terms and approval, to its directors, officers, employees, consultants, and service providers. The exercise price of each option may be set equal to or greater than the closing market price of the Common Shares of the Company on the day prior to the date of the grant of the option, less any allowable discounts. Awards typically vest in several tranches ranging from 6 months to 18 months. Options can have a maximum term of ten years and terminate 60 days following the termination of the optionee's employment, or 180 days following the optionee's death or disability.

The following describes the continuity of the Company's common share purchase options for the year ended December 31, 2018 and 2017:

| **Continuity of options** | Year ended December 31, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Outstanding – beginning of year | 1,180,000 | $ 0.80 | – | $ – |
| Granted during the year | 150,000 | $ 1.00 | 1,180,000 | $ 0.80 |
| Outstanding – end of year | 1,330,000 | $ 0.82 | 1,180,000 | $ 0.80 |

In October 2017, the Company issued 1,180,000 share purchase options to its directors, officers and employees. The weighted average fair value of the Options was determined to be $0.39 per option, using the Black Scholes pricing model and based on the following weighted average assumptions: risk-free interest rate of 1.61%; expected volatility of 74%; underlying market price of $0.80 per share; time to expiry of 4.75 years; and dividend yield of 3%.

In December 2018, the Company issued 150,000 share purchase options to certain of its directors, officers and employees. The weighted average fair value of the Options was determined to be $0.46 per option, using the Black Scholes pricing model and based on the following weighted average assumptions: risk-free interest rate of 2.06%; expected volatility of 76%; underlying market price of $1.00 per share; time to expiry of 4.80 years; and dividend yield of 4%.

(Expressed in Canadian Dollars, unless otherwise stated)

Upon the completion of the Transaction (note 1), the existing share purchase options of the Legal Acquiree were made exercisable in respect of the common shares of the Company.

The following table summarizes information on the options outstanding:

| **Options outstanding** | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Exercise price | Number of options outstanding | Weighted average remaining contractual life (years) | Number of options outstanding | Weighted average remaining contractual life (years) |
| $ 0.80 | 1,180,000 | 3.58 | 1,180,000 | 4.58 |
| $ 1.00 | 150,000 | 4.75 | – | – |
| | 1,330,000 | 3.71 | 1,180,000 | 4.58 |

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

| **Options exercisable** | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| Exercise price | Number of options exercisable | Weighted average remaining contractual life (years) | Number of options exercisable | Weighted average remaining contractual life (years) |
| $ 0.80 | 778,800 | 3.58 | – | – |

Share purchase warrant reserve

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

| Expiry date | Exercise price | Number of warrants: Opening balance | Issued | Exercised | Ending balance |
|---|---|---|---|---|---|
| July 2020(i) | $0.50 | 2,000,000 | – | (1,500,000) | 500,000 |
| February 2020(ii) | $0.30 | – | 66,667 | (4,666) | 62,001 |
| November 2020(iii) | $1.00 | – | 18,109 | – | 18,109 |
| Total | | 2,000,000 | 84,776 | (1,504,666) | 580,110 |

(i) These warrants were issued pursuant to certain loan agreements (note 10).

(ii) These warrants were issued pursuant to the Transaction (note 1 and 3) and were recorded as listing expense at their fair value using the black-Scholes option valuation model and the following valuation assumptions: risk-free interest rate of 2.35%; expected volatility of 70%; market price of $1.00 per share; time to expiry of 1.3 years; and dividend yield of 4%.

(iii) These warrants were issued pursuant to a private placement (note 12(b)) and were recorded within equity as share issuance cost at their fair value using the black-Scholes option valuation model and the following valuation assumptions: risk-free interest rate of 2.35%; expected volatility of 70%; market price of $1.00 per share; time to expiry of 2.0 years; and dividend yield of 4%.

(Expressed in Canadian Dollars, unless otherwise stated)

## 13. RELATED PARTY TRANSACTIONS

Transactions relating to the Company's interest in an associate, RER US, are disclosed in Note 7.

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:

| | Year ended December 31, | |
|---|---|---|
| **Remuneration for services rendered** | 2018 | 2017 |
| Short-term employment benefits | $ 234,000 | $ 110,000 |
| Share-based compensation | 300,000 | 96,000 |
| Total | $ 534,000 | $ 206,000 |

## 14. LOSS PER SHARE

The Company presents basic and diluted 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 and the fully prepaid convertible note (note 11(b)) that were outstanding during the year. 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 12(c)) and the 2018-Note (note 11(a)) were excluded from the calculation of diluted loss per share as they were antidilutive.

## 15. INCOME TAXES

### (a) *Provision for current tax*

No provision has been made for current income taxes, as the Company has no taxable income.

### (b) *Provision for deferred tax*

As future taxable profits of the Company are uncertain, no deferred tax asset has been recognized.

As at December 31, 2018, the Company had unused non-capital loss carry forwards and deductible expenditure pools of approximately $2,375,000 (2017–$1,002,000).

(Expressed in Canadian Dollars, unless otherwise stated)

*(c) Reconciliation of effective tax rate*

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Loss for the year | $ (3,198,989) | $ (288,474) |
| Total income tax expense | – | – |
| Loss excluding income tax | $ (3,198,989) | $ (288,474) |
| | | |
| Income tax recovery using the Company's tax rate | (864,000) | (75,000) |
| Non-deductible expenses and other | 360,000 | (70,000) |
| Changes in tax rates | – | (11,000) |
| Change in unrecognized temporary differences | 504,000 | 156,000 |
| Total | $ – | $ – |

For the year ended December 31, 2018, the Company's statutory tax rate was 27% (2017–26%) and its effective tax rate was nil (2017–nil).

As at December 31, 2018, the Company had the following temporary differences of which no deferred tax asset was recognized:

| Expiry | Tax Losses and Deductible Expenditure Pools | Other |
|---|---|---|
| Within 1 year | $ – | $ – |
| 1 to 5 years | – | 327,000 |
| After 5 years | 2,375,000 | (436,000) |
| No expiry date | – | 420,000 |
| Total | $ 2,375,000 | $ 311,000 |

## 16. 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 5) and other financial assets, including cash and cash equivalents, restricted cash, and amounts receivable.

The Company limits the exposure to credit risk for cash and cash equivalent and restricted cash 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.

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

*(c) Foreign exchange risk*

Primarily, the Company is exposed to foreign currency risk in respect of cash held in foreign currency, restricted cash (note 4(b)), RER US (note 7), and loan to Belltown (note 5(c)).

Based on the Company's U.S. dollar denominated monetary assets and monetary liabilities at December 31, 2018 a 10% increase (decrease) of the value of the U.S. dollar relative to the Canadian dollar would increase (decrease) net income by $400,000 and other comprehensive income by $100,000, 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 5(a)) and Blockchain (note 5(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 (note 5(a)) which is carried at fair value. An increase of 25 basis points in discount rates will result in a decrease of approximately $19,000 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).

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 December 31, 2018, the fair value measurement of the Aeolis Loan (note 5(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 year ended December 31, 2018.

*(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 year ended December 31, 2018. At December 31, 2018, the Company was not subject to any externally imposed capital requirements.

## 17. EVENTS OCCURING AFTER THE REPORTING PERIOD

*(a) Warrants exercised*

In March 2019, 59,500 of the Company's warrants were exercised (note 12(c)).

*(b) Cash Distribution*

In March 2019, the Company announced that the Board of Directors of the Company had declared a cash distribution of $0.01 per common share for the quarter ending March 31, 2019. The distribution is payable on May 1, 2019 to shareholders of record on April 3, 2019.

*(c) Repayment of loan receivable from Belltown*

In March 2019, the loan receivable from Belltown was repaid along with interest accrued thereon and the letter of credit provide by the Company was cancelled (note 4). The Company retains the royalty interest in the Rippey Project.