S&P Global Ratings

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Second Party Opinion

RE Royalties' Green Bond Framework

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Location: Canada	**Sector:** Financial Services

Alignment With Principles

Aligned = ✔ Conceptually aligned = ○ Not aligned = ✕

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

See Alignment Assessment for more detail.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Strengths

RE Royalties' renewable investments will help facilitate the decarbonization of the energy sector. We believe projects financed under the framework will contribute positively by expanding the company's footprint in green generation assets.

Weaknesses

Waste to energy may come with heightened environmental risks, including high lifecycle emissions, compared with other technology types. RE Royalties has criteria (including no incineration and limited feedstocks for these waste to energy projects), but this does not fully mitigate some of their lighter green attributes such as potential for greater lifecycle emissions and pollution effects when compared to other projects in the renewable energy category.

Areas to watch

The company has a long track record with several project types, notably renewables and battery storage, but some project categories, like clean transportation, are newer to the company. In our view, their project-by-project diligence process will continue to evolve as the company gains experience in each eligible project type, as not all project types will have strong thresholds or fully formed criteria at the start.

While RE Royalties has strong feedstock/fuel source limitation policies and a robust diligence process, we believe biofuel feedstock sourcing can be difficult at the operational level due to the complexity of waste tracking and sourcing through third parties.

Eligible Green Projects Assessment Summary

Eligible projects under issuer's green finance framework are assessed based on their environmental benefits and risks, using Shades of Green methodology.

Renewable energy	**Dark to Medium green**
Solar, wind, geothermal, and ocean energy	
Hydroelectric (small/run of river)	
Hydroelectric (large/storage/pumped storage): existing only	
Renewable fuels, bioenergy and waste to energy - subject to sustainable feedstock limitations	

Energy efficiency and management	**Dark to Medium green**
Energy storage systems (e.g., batteries)	
Energy efficiency (lighting, HVAC, etc.)	
Smart grid and energy management/Internet of Things	
District energy systems, heat pumps	

Clean transportation	**Dark to Medium green**
Zero-emission electric transportation (e.g., fully electric, hydrogen) including vehicles and supporting infrastructure	
EV charging, hydrogen fueling infrastructure	
Renewable fuels subject to sustainable feedstock limitations	

See Analysis Of Eligible Projects for more detail.

Issuer Sustainability Context

This section provides an analysis of the issuer's sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

RE Royalties finances renewable energy, energy efficiency and management, and clean transportation projects. The company focuses on using a royalty financing model found in other industries such as mining and the company acquires long-term royalty streams generally backed by power purchase agreements. By using this royalty structure, the company looks to finance small- to medium-sized renewable energy companies. As of Dec. 31, 2023, the company's portfolio includes 110 royalties on projects operating in Canada, the U.S., Mexico, and Chile, primarily in renewable energy and energy storage projects.

Material Sustainability Factors

Physical climate risk

Finance companies remain exposed to the effects of physical climate risks through the assets and businesses they finance. At the same time, the financial services sector may contribute to mitigating effects of physical climate risks by financing adaptation projects and climate-resilient infrastructure and by investing in solutions that support business continuity in exposed geographies. RE Royalties, per its financing focus on renewable energy, is exposed (at least partially) to the sector's physical climate risks. Namely, power generators are relatively more exposed to physical climate risks compared with other sectors per their fixed assets' exposure to weather-related phenomena. For stakeholders, extreme weather events, including wildfires, hurricanes, and storms, are becoming more frequent and severe and can result in power outages for large populations. As water is often a significant resource for hydro, exposure to flooding, drought, or warmer temperatures can also negatively affect operations. In turn, these dynamics, coupled with regulatory pressure to preserve security of supply, are driving players to enhance their assets' resilience. The physical climate risks generally involve significant financial losses for operators due to repairs and, more importantly, exposure to extreme power price spikes or claims due to business disruption. We expect these dynamics will continue but vary regionally depending on regulatory responses.

Climate transition risk

Finance companies are exposed to climate transition risk through financing economic activities that affect the environment. Policies and rules to reduce emissions could raise credit, legal, and reputational risks for finance companies with exposures to high-emitting sectors. Conversely, financing the climate transition offers a chance for growth. Specifically, RE Royalties directs most of its financing to renewable energy projects and energy storage, which play a vital role in reducing emissions associated with power and heat. Power generation is the largest direct source of greenhouse gas emissions globally, making this sector highly susceptible to the growing public, political, legal, and regulatory pressure to accelerate climate goals. Public awareness of the urgency for climate action has reached a turning point. In turn, policymakers and regulators are pushing for a faster transition to lower-carbon energy, especially as these technologies mature and become cost competitive. Over the past decade, non-renewable energy companies have incurred multibillion-dollar impairments for their most polluting assets, reflecting their weaker economics as taxes increase and they are displaced by new, cleaner technologies, such as renewable energy and energy storage

Waste and recycling

The recyclability of batteries in renewable energy storage systems and vehicles is gaining attention of regulators due to the environmental risks associated with disposal at the end of their lifecycle. To manage such potential risks, we anticipate circular product lifecycle management will become more strictly regulated. Other materials, such as steel and aluminum, have established recycling chains where recovered materials have economic value, but battery recycling is still in its early stages.

Impact on communities

Climate goals encompassing the development of renewables and the retirement of fossil fuel plants affect public health in addition to climate goals. Fossil fuel retirements can upend local economies and garner wide public attention. Toxic air emissions from plants can lead to severe and long-lasting health consequences for local communities, including premature death. Hence, replacing fossil fuel energy with renewables benefits local communities and society at large. On the other hand, sites with high renewable potential can be located near existing communities which can prompt opposition.

Biodiversity and resource use

Renewable power projects, which are proliferating to meet climate goals, require large land areas that are often in sensitive habitats where they can alter ecosystems, harm threatened species, and compete with other valuable land uses (agriculture for example). This is especially pertinent for hydropower plants, which can pose biodiversity risks if not properly managed. Risks include habitat disruption, modified water flows, and hindrances to fish migration.

Issuer And Context Analysis

RE Royalties plans on reducing greenhouse gas emissions through their royalties model. By financing projects across eligible categories like renewable energy, energy efficiency and management, and clean transportation, RE Royalties aims to address climate transition risk (a material sustainability factor for the broader power generation sector) and reach a goal of reducing greenhouse gas emissions.

RE Royalties plans on conducting project-by-project due diligence to ensure projects contribute to its mission of supporting the climate transition. The company would consider guidance from market standards such as EU RED II directive and the EU taxonomy but its investment diligence policies are not made public. The company excludes any fossil fuel investments.

Similar to greenhouse gas emissions, for biodiversity risks, the company does not adhere to any specific standard but reviews each project separately. For example, for hydro projects, the company would consider the jurisdiction in which the project is located and evaluate those regulations. It would also consider other biodiversity issues such as fish protection measures in conjunction with continued monitoring and stringent operating rules. The framework does not include projects dedicated primarily to biodiversity protection.

To address physical risks, RE Royalties will modify loan structures individually to accommodate material concerns. RE Royalties lends funds to project owners, addressing physical risk concerns through contract language such as performance guarantees, minimum revenue thresholds, or changing the renumeration structure (e.g. more heavily weighting interest over project revenue streams). Physical risks are also evaluated during its project selection process on several criteria stipulated in an eligible project document.

RE Royalties plans on conducting due diligence on battery suppliers on a case-by-case basis. Currently the company estimates its portfolio will mainly consist of renewable energy generation and battery storage. RE Royalties has no plan to directly fund battery manufacturing, but will review suppliers' sourcing documentation to manage the associated risks. Clean transportation is included in the framework, but the company does not currently finance any such projects. RE Royalties will conduct diligence based on public information such as annual financial disclosures from auto manufacturers if it finances EVs under the framework.

Alignment Assessment

This section provides an analysis of the framework's alignment to Green Bond principles.

Alignment With Principles

Aligned = ✔ Conceptually aligned = ○ Not aligned = ✖

✔ Green Bond Principles, ICMA, 2021 (with June 2022 Appendix 1)

✔ Use of proceeds

All the framework's green project categories are shaded in green, and the issuer commits to allocate the net proceeds issued under the framework exclusively to eligible green projects. Please refer to Analysis of Eligible Projects section for more information on our analysis of the environmental benefits of the expected use of proceeds.

✔ Process for project evaluation and selection

RE Royalties identifies relevant objectives of all green eligible projects. RE Royalties' executive management team is responsible for evaluating and determining if an investment is an eligible investment under the company's green bond framework. Management will also periodically review and verify the suitability of investments with the company's board of directors. Eligible investments will be evaluated based on criteria including financial, operational, technical, market, legal, environmental, social and governance factors. Project-specific environmental and social reviews assess potential impacts and risks such as those related to deforestation, habitat, and other impacts.

✔ Management of proceeds

RE Royalties commits to track net proceeds. The proceeds from the green bonds will be deposited into the company's general account and an amount equal to net proceeds will be earmarked for allocation to eligible investments. The company will establish a green bond register to record on an ongoing basis the allocation of the net proceeds to eligible investments. The register is reviewed on a quarterly basis and if an eligible investment matures (and is repaid) within the term of the green bond, that amount will become available for deployment into eligible investments and added to the green bond register. Until allocated to eligible investments, funds may be invested in cash or cash-like instruments (no ineligible technologies or sectors).

✔ Reporting

RE Royalties commits to annual reporting, through green bond reports, which will include the allocation of funds to eligible investments, the current allocation of funds to each eligible category, percentage deployed by issuance series, and portion allocated to re-financing existing investments (if any). Additionally, examples of impact metrics that may be included are total installed capacity of renewable energy and renewable energy production, among other impact metrics.

Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects, based on their environmental benefits and risks, using the Shades of Green methodology.

Based on current RE Royalties allocation, we expect RE Royalties to allocate the majority of the proceeds under the framework to the renewable energy and energy management categories. RE Royalties has not funded any clean transportation investments with green bond proceeds yet, although they do have a renewable transportation fuel investment in their overall portfolio.

Overall Shades of Green assessment

Based on the project category shades of green detailed below, and consideration of environmental ambitions reflected in RE Royalties' Green Bond Framework we assess the framework Dark Green.

Dark green

Activities that correspond to the long-term vision of a low-carbon climate resilient future.

Our Shades of Green Analytical Approach >

Green project categories

Renewable energy

Assessment	Description
Dark to Medium green	Investments related to the generation and supply of energy from renewable and low carbon sources including: • Solar, wind, geothermal, and ocean energy • Hydroelectric (small/run of river) • Hydroelectric (large/storage/pumped storage): existing only • Renewable fuels, bioenergy and waste to energy subject to sustainable feedstock limitations

Analytical considerations

- Renewable energy is a key element in a low-carbon energy sector, but it can affect biodiversity in project areas.
- Hydroelectricity can entail significant emissions from construction and from water reservoirs. It is therefore positive that, for hydroelectric plants that are not run of river, RE Royalties includes existing only hydroelectric projects.
- Projects in the renewables category are a key part of the transition, though renewable fuels, bioenergy, and waste to energy projects may come with heightened environmental risks compared with other technology types. RE Royalties' has feedstock requirements that limit the fuel sources to nonfood, waste sources with considerations for biodiversity and land use change for bioenergy renewable fuels and waste to energy. Incineration is also excluded for waste to energy project types. While we view these policies as strong and believe RE Royalties does effective project by project due diligence with consideration given for lifecycle emissions, some of these projects may have lighter green aspects. We believe, however, that traditional renewables will comprise the majority of the investments made under the framework, which has informed our shading.

Energy efficiency and management

Assessment	Description
Dark to Medium green	Investments related to activities that contribute to the reduction of energy consumption or help manage and store energy such as: • Energy storage systems (e.g., batteries) • Energy efficiency (lighting, HVAC, etc.) • Smart grid and energy management/Internet of Things • District energy systems, heat pumps Projects are focused on, but not limited to, commercial buildings, grid resiliency and renewables support, and replacement of diesel generators.

Analytical considerations

- Energy storage, which we believe will comprise most of the investment in this category, is crucial for facilitating greater integration of renewables and it is part of a 2050 solution. RE Royalties expects most proceeds under this category to go towards expanding storage of renewables.
- While the company anticipates nearly all (if not all) energy storage investment to be in batteries, the framework leaves open the possibility for other technology types, specifically thermal storage, capacitors, flywheels, compressed air, and hydrogen, to be included. These other storage technologies may entail risks to climate, hydrology, biodiversity, and ecosystems that need to be carefully managed if financed.
- There is no required minimum efficiency gain for projects to be eligible, but projects are assessed individually on merits that take into consideration a combination of GHG reduction and efficiency benefits. Without quantitative performance thresholds for efficiency improvements, managing potential rebound risks is key.
- A smart power grid is essential to grid resiliency and electrification.
- District energy systems financed under this category would not include fossil fuels, as RE Royalties does not fund fossil fuel powered projects.
- RE Royalties relies on manufacturer's diligence for battery sourcing. Batteries requires high volumes of environmentally sensitive materials. The supply chains for these materials and battery end of life need to be appropriately managed to avoid creating adverse impacts.

Clean transportation

Assessment	Description
Dark to Medium green	Investments related to low carbon transportation including: • Zero-emission electric transportation (e.g., fully electric, hydrogen) including vehicles and supporting infrastructure • EV charging, hydrogen fueling infrastructure • Renewable fuels subject to sustainable feedstock limitations

Analytical considerations

- Electric vehicles and other zero-emission transport solutions are part of a 2050 solution.

- Battery component sourcing can have environmental and social impacts for local communities, and RE Royalties relies on the battery manufacturer’s diligence processes.
- RE Royalties' renewable fuels projects must come from renewable sources and meet feedstock criteria.
- While any vehicles funded would likely be electric, the company has its own green sourcing requirements for hydrogen.

S&P Global Ratings' Shades of Green

Assessments	Dark green	Medium green	Light green	Yellow	Orange	Red
Description	Activities that correspond to the long-term vision of an LCCR future.	Activities that represent significant steps toward an LCCR future but will require further improvements to be long-term LCCR solutions.	Activities representing transition steps in the near-term that avoid emissions lock-in but do not represent long-term LCCR solutions.	Activities that do not have a material impact on the transition to an LCCR future, or, Activities that have some potential inconsistency with the transition to an LCCR future, albeit tempered by existing transition measures.	Activities that are not currently consistent with the transition to an LCCR future. These include activities with moderate potential for emissions lock-in and risk of stranded assets.	Activities that are inconsistent with, and likely to impede, the transition required to achieve the long-term LCCR future. These activities have the highest emissions intensity, with the most potential for emissions lock-in and risk of stranded assets.
Example projects	Solar power plants	Energy efficient buildings	Hybrid road vehicles	Health care services	Conventional steel production	New oil exploration

Note: For us to consider use of proceeds aligned with ICMA Principles for a green project, we require project categories directly funded by the financing to be assigned one of the three green Shades.

LCCR--Low-carbon climate resilient. An LCCR future is a future aligned with the Paris Agreement; where the global average temperature increase is held below 2 degrees Celsius (2 C), with efforts to limit it to 1.5 C, above pre-industrial levels, while building resilience to the adverse impact of climate change and achieving sustainable outcomes across both climate and non-climate environmental objectives. Long term and near term--For the purpose of this analysis, we consider the long term to be beyond the middle of the 21st century and the near term to be within the next decade. Emissions lock-in--Where an activity delays or prevents the transition to low-carbon alternatives by perpetuating assets or processes (often fossil fuel use and its corresponding greenhouse gas emissions) that are not aligned with, or cannot adapt to, an LCCR future. Stranded assets--Assets that have suffered from unanticipated or premature write-downs, devaluations, or conversion to liabilities (as defined by the University of Oxford).

Mapping To The U.N.'s Sustainable Development Goals

Where the Financing documentation references the Sustainable Development Goals (SDGs), we consider which SDGs it contributes to. We compare the activities funded by the Financing to the International Capital Markets Association (ICMA) SDG mapping and outline the intended linkages within our SPO analysis. Our assessment of SDG mapping does not impact our alignment opinion.

This framework intends to contribute to the following SDGs:

Use of proceeds	SDGs				
Renewable energy	3*. Good health and well-being	7*. Affordable and clean energy	9*. Industry, innovation and infrastructure	11*. Sustainable cities and communities	13. Climate action*
	17. Partnerships for the goals				
Energy efficiency and management	3. Good health and well-being	7*. Affordable and clean energy	9*. Industry, innovation and infrastructure	13. Climate action*	17. Partnerships for the goals
Clean transportation	3. Good health and well-being	9. Industry, innovation and infrastructure	11*. Sustainable cities and communities	13. Climate action*	17. Partnerships for the goals

For use of proceeds *The eligible project categories link to these SDGs in the ICMA mapping.

Related Research

- Analytical Approach: Second Party Opinions: Use of Proceeds, July 27, 2023
- FAQ: Applying Our Integrated Analytical Approach for Use-of-Proceeds Second Party Opinions, July 27, 2023
- Analytical Approach: Shades of Green Assessments, July 27, 2023

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