

Second Party Opinion



## Montana Renewables Green Financing Framework

March 28, 2022

Montana Renewables (MRL) is a renewable fuel business located in Great Falls, Mont. In November 2021, MRL was separated from Calumet Specialty Products Partners L.P., which designated it as an unrestricted subsidiary as a part of the separation.

MRL aims to convert an existing hydrocracker into a renewable fuel unit such that it can process a mix of renewable feedstocks (such as seed oils, tallow, and used cooking oil) to produce lower-emission, sustainable alternatives to fossil fuels, including renewable diesel and sustainable aviation fuel (SAF). MRL expects to begin renewable feedstock processing in September 2022 with an initial throughput capacity of 15,000 barrels per day. The company plans to expand its throughput capacity to 18,000 barrels per day in 2024.

In our view, MRL's Green Financing Framework, published on March 28, 2022, is aligned with:

-  Green Bond Principles, ICMA, 2021
-  Green Loan Principles, LMA/LSTA/APLMA, 2021

The Framework Alignment Opinion does not assess the alignment of any individual transaction with the Green Bond Principles (GBP) or Green Loan Principles (GLP).

### Issuer's Sustainability Objectives

MRL's primary sustainability objective is to lead the energy transition for the transportation and aviation sectors by reducing the greenhouse gas (GHG) emissions footprint of North American transportation fuels without sacrificing performance. The company considers its renewable fuels to be fully carbon neutral because 100% of the feedstock it uses is of natural origin and its facility is powered entirely by renewable energy from renewable feedstocks and hydroelectric dams. The facility is also strategically located near major feedstock sources in the U.S. and Canada, which decreases upstream and downstream emissions from transportation of the renewable feedstock and renewable fuels produced.

MRL has developed this green financing framework to further align its funding strategy with its environmental commitments. The company may issue a variety of financial instruments, including bonds, loans, convertible notes, securitizations, and other green financing, under the framework to support this strategy.

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## Second Party Opinion Summary

### Use of proceeds

**Alignment**  MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

**Score** Not aligned Aligned **Strong** Advanced

MRL commits to using an amount equal to the net proceeds of debt instruments issued under the framework exclusively to finance or refinance eligible clean transportation and sustainable water and wastewater projects. The framework outlines the relevant sustainability objective associated with each eligible project category, as well as example projects.

### Process for project evaluation and selection

**Alignment**  MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

**Score** Not aligned **Aligned** Strong Advanced

MRL will establish a Green Finance Committee comprising members of its finance, treasury, and environmental, social, and governance (ESG) teams, which will be responsible for selecting and approving projects that meet the eligibility criteria outlined in the framework. MRL also applies Calumet's policies and procedures, which aim to identify and manage environmental and social risks, in its project selection process.

### Management of proceeds

**Alignment**  MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

MRL's finance department will track the allocation of the proceeds from its outstanding instruments toward eligible green projects for the life of the instruments. The company aims to allocate the proceeds from any green financing it issues under the framework in the three years following its issuance date. MRL will manage any unallocated proceeds in line with its normal cash management practices.

### Reporting

**Alignment**  MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

**Score** Not aligned Aligned **Strong** Advanced

MRL commits to report on the allocation of proceeds across eligible projects, at least annually until full allocation and as necessary (in the event of material developments, for example) thereafter. Where feasible, the issuer will also report on the environmental impact of the projects and plans to align its impact reporting with ICMA's Harmonized Framework for Impact Reporting to the extent possible. MRL's allocation and impact reporting will be publicly available on its website.

## Framework Assessment

### Use of proceeds

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For use of proceeds, we consider the commitments and clarity on how the proceeds are used.

 MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

### Commitments score

Not aligned

Aligned

**Strong**

Advanced

We consider MRL's overall use of proceeds commitments to be strong.

MRL commits to using an amount equal to the net proceeds of debt instruments issued under the framework exclusively to finance or refinance eligible clean transportation and sustainable water and wastewater projects. For refinancing, the company commits to a lookback period of up to 12 months prior to issuance for capital expenditures (with the lookback period limited to Nov. 18, 2021, which is when MRL was established). In addition, it commits to disclose the proportion of the funds it used for refinancing, which we consider to be in line with best market practices.

Eligible projects in the clean transportation category include expenditures for facilities that either produce renewable fuels and renewable byproducts or will be converted to exclusively produce renewable fuels and renewable byproducts, such as renewable hydrogen production plants, renewable feedstock pre-treatment units, and hydrogenation/isomerization reactors. MRL estimates that the renewable fuel it produces reduces carbon intensity by at least 64% compared to conventional fuel, supporting its sustainability mission to mitigate climate change and reduce GHG emissions across the transportation industry. Eligible projects in the sustainable water and wastewater category include expenditures for facilities or equipment that improve water quality. Such projects may include water treatment plants to treat water resulting from renewable feedstock processing, supporting the environmental objective of natural resource conservation.

### Process for project evaluation and selection

The Principles make optional recommendations for stronger structuring practices, which inform our alignment opinion as aligned, strong, or advanced. For our process for project selection and evaluation, we consider the commitments and clarity on the process used to evaluate and select eligible projects to fund with the proceeds of the sustainable finance instrument.

 MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

### Commitments score

Not aligned

**Aligned**

Strong

Advanced

We consider MRL's overall process for project selection and evaluation commitments to be aligned.

The company's framework describes its process to evaluate and select green projects. A Green Finance Committee, comprising representatives from its finance, treasury, and ESG teams, will be responsible for evaluating and selecting projects based on the framework's eligibility criteria to ensure alignment.

We believe the eligibility criteria is well defined in the framework. For example, renewable fuel produced from clean transportation projects must generate a Renewable Identification Number (RIN), generate a Low Carbon Fuel Standard (LCFS) credit, and/or be used in SAF. Similarly, the water quality of treated water resulting from sustainable water and wastewater management projects must meet or exceed local regulatory standards.

MRL currently applies Calumet's policies and procedures, including its Code of Business Conduct and Ethics and Vendor Code of Business Conduct and Ethics, to its project selection process. These policies which are largely focused on Calumet's approach to ethics, governance, health, and

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safety, aim to identify and manage environmental and social risks associated with the eligible projects. For example, as outlined in the Code of Business Conduct and Ethics, the company will stop, or not start, a project if it poses a threat to safety or the environment. MRL plans to create its own policies and procedures, which will largely mirror those of Calumet, in the second half of 2022.

### Management of proceeds

The Principles require disclosure of the issuer's management of proceeds from sustainable finance over the life of the funding. The alignment opinion focuses on how clear in the documentation is the issuer's commitment to ensure that the funds raised will remain dedicated to eligible sustainability projects throughout the life of the sustainable finance funding.

 MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

MRL commits to track the funds allocated to eligible green projects for the life of the outstanding securities through its internal systems. The issuer expects to allocate an amount equal to the net proceeds raised from each green issuance to eligible projects within three years of their issue date, which we view to be in line with best market practices. Furthermore, MRL commits to reallocate proceeds to new eligible projects, on a best-efforts basis, if the original projects are no longer eligible.

Until it fully allocates the net proceeds to eligible projects, MRL commits to manage the proceeds in accordance with its normal cash management practices. While not specified in the framework, we understand MRL will hold any unallocated proceeds in cash and cash equivalents, which we view as in line with best market practices.

### Reporting

The Principles make optional recommendations for stronger disclosure practices, which inform our disclosure opinion as aligned, strong, or advanced. We consider plans for updates on the sustainability performance of the issuer for general purpose funding, or the sustainability performance of the financed projects over the lifetime of any dedicated funding, including any commitments to post-issuance reporting.

 MRL's Green Financing Framework is aligned with this component of the GBP and GLP.

### Disclosure score

Not aligned

Aligned

**Strong**

Advanced

We consider MRL's overall reporting practices to be strong.

The company commits to report on the allocation and impact of the proceeds, at least annually until full allocation and as necessary thereafter in the event of material developments.

Its allocation reporting will include the amount allocated to eligible green projects and the balance of unallocated proceeds. The allocation report will also include assertions by MRL's management on the amounts allocated to each eligible category, as well as an independent third-party review of management's assertions with respect to these allocations.






A strong feature of the framework, in our view, is the issuer's commitment to publicly report, where feasible, selected environmental key performance indicators in line with the ICMA Harmonized Framework for Impact reporting. Sample impact metrics include annual GHG emissions reduced/avoided, renewable fuel or hydrogen produced, and wastewater treated, reused, or avoided. MRL will also report estimates of the expected impact of projects that are not yet operational or still in the development phase. Where feasible, the company will include the methodology and assumptions used to calculate its impact metrics and case studies on individual projects in its impact reporting. However, it has not made any commitments related to an external review of the project impacts.

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

The Sustainable Development Goals (SDGs), which the United Nations (U.N.) set up in 2015, form an agenda for achieving sustainable development by 2030.

We use the International Capital Market Association's (ICMA's) SDG mapping for this part of the report. We acknowledge that ICMA's mapping does not provide an exhaustive list of SDGs and that ICMA recommends each project category be reviewed individually to map it to the relevant SDGs.

MRL's Green Financing Framework intends to contribute to the following SDGs:

Use of proceeds	SDGs
Clean Transportation	   <b>7. Affordable and clean energy</b> <b>*11. Sustainable cities and communities</b> <b>13. Climate action</b>
Sustainable Water and Wastewater Management	  <b>*6. Clean water and sanitation</b> <b>*12. Responsible consumption and production</b>

\*The eligible project categories link to these SDGs in the ICMA mapping.

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