The Art of Buying Royalties©

As with other forms of investment, successful investing is an art and not a science. Successful investing -- doing better than the average returns of professionally managed portfolio having objectives similar to those of the investor and available for investment by the public -- requires intelligence, experience and discipline.

Intelligence is required to identify objects, which are likely to increase in value.

Experience is required to assess the risk / reward potential of the investment.

Discipline is required to limit losses by overriding ego and wishful thinking as necessary in the management of a portfolio of investments.

In the case of managing a portfolio of revenue sharing royalties, the following skills are necessary:

> Revenue growth assessment – How likely is it that the royalty issuing entity will achieve the revenue levels it projects? This judgment requires knowledge of the products or services offered by the issuer as well as the economic outlook for the industry being served. To judge the achievability of the projected revenues, the

investor must understand and accept the issuer's claim of providing customers with benefit at an attractive price.

Valuation of royalties – An exercise in both credit analysis and comparative return awareness as currently available from comparable risk capital investment opportunities. Investments appearing to be riskless, as in debt offered by trusted governments and agencies thereof, should be worth their initial cost, if market interests rates and currency relationships have remained constant. The return on royalties should be substantially greater than government debt and most corporate debt, as debt holders only have a stated interest rate as their benefit and presumably the return of the their capital at the maturity of the debt.

Royalty owners have an entitlement to receive the agreed percentage of revenues of the issuer and therefore will realize increasing returns in the event the issuer generates increasing revenues. Therefore, to value a royalty there are two considerations: one being the results of different revenue levels and the second the sustainability of the issuer.

Of course, were royalties to have the liquidity of being exchange traded, as we hope and expect will ultimately be the case, the value of royalties issued by companies with increasing revenues would be very much higher, as investors would extrapolate the trend of revenues and resulting royalty payments. The websites www.REXRoyalties.com, www.REXComparator.com and www.REXdebt-share-Royalties.com provide dynamic models for assessing the returns to the investor and payments required of the issuer.

Investor protection - This is of paramount importance to investors as they transfer the control of their money to others. In our U.S. patented approach to using royalties in the financing of businesses, the risk of owning royalties is substantially reduced.

First, the royalty issuer agrees to pay royalties to an agent of the royalty owner on every occasion of receiving revenue. The royalty owner is therefore never an account receivable of the issuer but the agreed funds are deposited in bank accounts managed by a trusted third party, as soon as they are received by the issuer.

Second, the royalty issuer makes arrangements satisfactory to the royalty purchasers, for the transfer or registered pledging of critical assets of the issuer to a third party. The third party, acting as in effect as a trustee for the benefit of the royalty owners, exclusively licenses the issuer to use the assets without cost, for so long as the issuer is in contractual compliance with the royalty owners. Upon termination of the royalty contract, the assets are transferred back to the royalty issuer.

Third, the controlling owner of the issuer personally attests that the issuer has only deposited revenue in the bank accounts agreed with the royalty owners, from which the agreed royalty is withdrawn on deposit.

Fourth, there is an annual audit of issuer revenues, performed by an auditor approved by the royalty owners, and delivered to the royalty owners within an agreed period after the close of the fiscal year.

Royalties should not be purchased from any issuer where due diligence indicates any history of integrity issues or litigation. Although royalties avoid the issues of conflict of interests and profit determination and declaration, they are not riskless. Companies do fail and even the ownership of the critical assets may not be sufficient to offset an investor's loss. Royalty owners are partners with royalty issuers in the revenue of the issuer and as such should believe in the integrity of the issuer, much as the issuer must believe in the goodwill of the royalty owners.

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