Comparing Royalties to Other Investments ©

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Royalties, an agreed percentage of a company's revenues paid to investors for an agreed period, have inherent advantages over other investment classes.

Debt: Whatever the form of straight interest-bearing debt, the best that can happen is for the company to pay the specified interest and principal as required. There is no upside for investors if the company is successful, and the higher the interest rate the borrower is prepared to pay, the higher the likely risk for the lender.

Convertible or participating debt: If the issuer of the debt finds it necessary to include sweeteners, such as conversion or participation, in order to attract investing lenders it is probable the quality of the debt is questionable. Also, it is unlikely the sweeteners will be of sufficient benefit to offset the lower quality debt and the added risk.

Preferred stock: Although preferred stock has a preference in the liquidation of a company over the interests of common shareholders, that preference may not be sufficient protection, in the event of a reorganization, to protect the invested capital. Even with the practice of venture capital firms to require liquidation preferences providing for minimum multiples of return on the original investment, preferred shares can still require patient investors as the dividend rate is unlikely to be generous.. This is because creditors of the company will come first in the liquidation queue and frequently require payment of all the funds the company has or can raise through the sale of assets. The preferred, especially if convertible, will be a good

investment if the company is successful, but is not particularly good for the investor unless the company is successful, except as to the possible receipt of dividends.

Common Stock or Limited Partnerships: Being an owner of a business is great if the business is or becomes successful. However, If the business is not as successful as anticipated or is unsuccessful, results of stock ownership can range from disappointing to disastrous. For investors, equity ownership in a private company relies on the potential value of a future exit event, which requires evaluation of many unknown and ultimately unquantifiable risks.

Master Limited Partnerships: These are limited partnership interests, which have been used to finance extractive industries such as oil and gas as well as mining and other industries. The extraction levels as well as the commodity prices can impact the returns, exposing investors to market risks that are outside the control of the company.

Real Estate Investment Trusts: REITs own and manage real estate properties and some have done extremely well. However, there is a wide range of REITs and they are greatly impacted by interest rates, changes in real estate values and the quality of property management. As with MLP's, external market forces are a strong influence on the final investment result.

Annuities: There is a range of annuities issued by insurance companies. Annuities have a life insurance feature and can provide either a fixed or investment performance-based variable return. Putting aside the value of the insurance company's contract, there are usually significant commissions paid to the sellers of the annuities, which dilute investor returns. Currently there are no annuities based on the returns of a portfolio of royalties; this is an opportunity for a forward-looking insurer.

Royalties: Royalties are a better investment than either debt or equity in some cases, as they participate directly in the gross revenues of the company, without reference to the profitability of the company or the anticipated value of its equity. Royalties increase as royalty issuer revenues increase, and can be protected. They can be structured to have significant upside for investors based on increased revenues of the royalty issuer, and are designed, in the case of established companies, to provide consistent royalty investor income from the outset of the investment. We believe that a well structured royalty should produce quarterly royalty payments having an annual Internal Rate of Return in excess of 15% over the course of the royalty payment period.

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