Frequently Asked Questions re REX-RIAR

Q: How assured is the agreement of the royalty issuer?

A: It is a contractual agreement made by the company making the assurance to the investor. The level of priority, possible securing of the obligation and other means of providing comfort to the investor are subject to negotiation with the royalty issuer. Our approach of securing the critical assets of the issuer coupled with immediate crediting of the royalty payment upon receipt of revenue addresses the matter. The level of priority for payment of this contractual obligation in case of a re-organization event should be addressed in the contract.

Q: What happens if the assured amount is not received by the end of the agreed period?

A: That depends on the terms of the agreement as negotiated between the royalty issuer and the investor. If the critical assets of the issuer have been transferred to a third party, as we recommend, those assets may be used to recover any losses.

Q: What terms can be changed in the REX-RIAR calculator to understand the impact of the terms assuming the projected revenues remain constant, rather than increasing?

A: The following can be modified: the amount paid for the royalty, the royalty rate paid in the selected years and the number of years in which the royalty issuer’s assured amount is to be paid.

Q: Is it possible for the assurance of the royalty issuing company to be guaranteed by an independent party?

A: Yes, it is possible but the amount to be guaranteed will be considerably less as the risk has been dramatically reduced. Also, the royalty issuer will have to compensate the guarantor of the obligation as the primary risk taker.

Q: If the royalty investor sells the royalty, does the assurance transfer to the new owner?

A: Yes, the obligation of the royalty issuer remains constant. However, the obligation to the new owner will be reduced by the amount of royalties already paid by the issuer to the original owner.

Q: Will all royalty issuers be prepared to offer an assured return?

A: No, as many, if not most, will feel the upside potential based upon their projected revenues is sufficient to attract investment.

Q: Why did you bother to create REX-RIAR if only a few issuers will be willing to make the assurance?

A: Because the approach has merit and we seek to provide calculation and analytical tools, which facilitate negotiation and understanding of impact of the terms. Some investors and issuers will benefit from this additional tool, so they can come to an appropriate balancing of risk, and it is likely that some royalties deals will be consummated using this tool, which otherwise might not have been completed. The basic investment principle of greater returns requiring greater risk and business owner benefit of non-equity dilutive financing will allow for fair and reasonable transactions with both parties winning.

Q: Can the owner of a royalty sell the contract?

A: Yes, royalties are negotiable and can be sold. However, the new buyer will be subject to the same constraints as the original buyer, for example being recognized as an accredited investor. In almost all cases the royalty issuing company will be the most likely buyer.

Q: Is the sale of a royalty at a price in excess of that paid for the royalty a capital gain or is it ordinary income?

A: We believe the sale of an asset held for the required period and sold in an arm’s length transaction is a capital gain. However, we do not intend to offer legal or tax related advice and urge you to check with your accountant or attorney.