Investor Trust in Royalty Investing ©

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In any transaction, a level of counterparty trust is required. The other reality is: the owner of the gold should make the rules.

In securities and commodity transactions the exchanges are effectively substituted as the party responsible for the completing of the transaction. The investor does not know or care about the identity of the securities broker or firm which is either agreeing to take or deliver the asset traded. The investor simply trusts the firm through which he is trading to complete the transaction.

Revenue royalties for private companies are different. The royalty issuer has contracted to pay the royalty owner a percentage of the issuer's revenues for a period of time. Simple? Yes, it is simple but royalty purchasers will understandably have a concern regarding the royalty issuer performing as promised.

In our patented approach, we have addressed the matter of investor trust in several ways.

> **First, the company selling the royalty agrees to deposit all revenues in banks approved by the royalty owners.**
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> **Second, the selected banks agree, immediately on receipt of a deposit, to deduct the agreed percentage amount of the royalty and remit it to an agent of the royalty owners. In the case of banks unwilling to offer such a lockbox service, an agreed party is immediately notified of the receipt of revenues and is empowered by a limited power of attorney executed by the company to make the deduction and transfer.**
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> **Third, a majority of the owners and/or directors of the business must <u>personally attest</u> that all revenues of the company have been and are being deposited in the designated banks.**
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> **Fourth, there must be an annual audit of at least the revenues of the company provided to the investors.**

Fifth, the royalty issuing company is required to transfer or assign the critical assets of the company to an agreed third-party, which acts as a trustee. The asset holding entity grants the company the international exclusive right to use the present and future critical assets of the company without cost for so long as the company is in contractual compliance with its obligations to the royalty owners. In the event of a default, the trustee entity has the ability to cancel the right to use said defined assets. In the event the company is reorganized or bought, the new owners will almost certainly require the use of the assets being held.

Assuring the contractual compliance of the royalty issuing company is important and necessary. However, the most important investment decision the investor is likely to make is: will the revenues of the company achieve at least the projected levels?

In a royalty negotiation minimum levels of royalty payments can be required and the website calculator REX-RIAR.com addresses levels of Royalty Issuer Assured Returns. However, it should be noted that in the event of a minimum the issuer will logically seek a maximum cap. Also, a minimum creates a contingent liability for the company. Also, such a minimum royalty return would not be Sharia compliant, as are royalties not having minimum royalty payment obligations.. Of course, the royalty issuer will seek a lower royalty rate in the case of there being a minimum royalty payment obligation

In order to provide an incentive to the royalty issuing company to be conservative in the projection of revenue and therefore royalty payments the website calculator REXScaledRoyalties.com was created. The website calculator facilitates negotiation by allowing users to select a multi-year period in which, if the achieved revenues exceed those projected by an agreed percentage there is an automatic reduction in the agreed future royalty rate. Therefore, the issuer is motivated to make projections about which there is believed to be little or no risk of non-achievement. This is the carrot.

The stick in REXScaledRoyalties.com is that if the revenues fail to reach the projected levels within the agreed period, by an agreed percentage, there is a penalty. The penalty can be in the form of an extension of the

royalty payment period, the issuance of a corporate obligation, or whatever the parties agree. The website just indicates the level of deficiency of royalties received versus those anticipated based on the projected revenues. The whole point of the approach is that the maker of the projections should benefit from being successful or pay for missing projected results by an agreed amount.

Warranted trust is important in the retention of capital and it is in everyone's best interest for royalty investors to have a good experience.

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