Protecting Royalty Investors©

Arthur Lipper

The royalty investor is naturally conservative and risk-averse.

The approach we recommend in the vetting and purchase of royalties from established privately owned companies recognizes that a reasonable predictability and achievement of increasing royalty payments is the objective. Royalty investing is not a "Greater Fool" exercise.Much of equity investing can be described in that fashion.

First and uppermost is the requirement that the agreed royalty percentage is deducted from the royalty issuer's bank account immediately on receipt of revenue. This can be accomplished by the royalty issuing company establishing with a bank a "lockbox" account. Lockbox banking is a service provided by banks to companies for the receipt of payment from customers. Under the service, the <u>agreed percentage of</u> the payments made by customers are directed to <u>a royalty investor designated account</u> instead of going to the company.

In the event the company is unable to arrange for a lockbox account, an alternative which may be acceptable to investors would be the investor's agent receiving immediate notice of all deposits from the designated bank. At the time of deposit one or more senior executives of the company who have check writing ability become personally responsible for making deposits to an investor- designated account.

Next, the controlling shareholders of the company personally attest that all of the defined revenues are deposited in the investor agreed bank. This attestment which should be part of the royalty agreement, is a personal undertaking by those in control of the company that the company is acting in conformity with the royalty agreement.

Next, the royalty issuing company will be required to place critical assets of the company in the unfettered control an Asset Holding entity which is mutually approved by the royalty investor(s) and issuer. The necessity of changing the ownership of the company's

critical assets to the Asset Holding will be determined by the parties. A UCC filing may be agreed to be satisfactory and it is also possible the investors will agree to future subordinations of the liens held. The Asset Holding entity will provide the royalty issuing company with a cost-free, international, exclusive license to use the assets for so long as the company is in compliance with the royalty agreement. Effectively, the payment of royalties as agreed is the primary indicia of compliance.

It is possible that the terms of the Asset Holding arrangement can be modified, upon the payment of agreed cumulative amounts of royalties.

Finally, the sale of the royalty is an agreement entered into between the investor(s) and the company. The company is therefore fully liable for the terms of the agreement.

Observation: Although there is always the possibility of a loss when involved with a single company, it is difficult to foresee an overall portfolio loss if there is a limitation as to exposure to any single issuer. This is the reason why royalty income funds may be safer than other forms of investment offering comparable levels of rising income.

Arthur Lipper, Chairman
British Far East Holdings Ltd.

May 9, 2017