Royalty Fund Management Principles ©

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Believing that portfolio diversification is a reasonable requirement for a fiduciary managed royalty income fund a 5% maximum exposure to a single royalty issuer is recommended.

All royalty transactions are based on projected and achieved revenues and therefore royalty payments. As the terms of a royalty are known the only variance can be in revenues. Therefore, the terms of the royalty can reflect the achievement of revenues versus projected levels as is facilitated in www.REXScaledRoyalties.com.

Some fund managers will require a daily Net Asset Value (NAV) calculation. As the royalties held in the portfolio will not be traded publicly it is the original cost basis of the royalty, which can be adjusted. A logical approach would be to adjust the original cost of the royalty by the variance of reported revenues to those projected. In a similar approach the original cost of the royalty could be changed to reflect the receipt of latest quarterly or cumulative royalty payments as they differ from that projected at the time of acquisition.

Of course, as every royalty payment received reduces the effective cost of the royalty these NAV calculation approaches based on original cost and are only for record keeping.

As the royalty investor is able to negotiate the terms of the royalty, always focused on the projected revenue, it is the achievement of the projections which is most important in present valuing the royalty and assessing its future value, as the revenue participation is a predicted known. The website calculator www.REX-PC.com can be useful in gauging the present value of a royalty. The other website calculators www.REXRoyalties.com and www.REXdebt-shareRoyalties.com also show the projected returns which can be contrasted to those actually received in reaching a NAV.

The risk analysis of individual royalties must take into consideration the value of the assets securing the contractual compliance of the royalty issuing entity. The assessment must also include an observation of the issuer's ability to achieve the projected revenues and therefore royalties. Finally, if available the net profit margin of the

royalty issuer could be an important indication of the likely sustainability of the business.

If, as we strongly recommend, the agreed royalty is collected, in a lock box arrangement with the royalty issuer's bank (as approved by the investor), the investor's risk is reduced with each payment.

Further, we recommend that the filing of a UCC lien or even actual transfer of the ownership of critical assets of the royalty issuer secure royalty agreements to an escrow agent as a means of assuring the contractual compliance of the royalty issuer. The assets can be returned unencumbered to the company on the receipt of an agreed level of royalty payments. The royalty issuer receives an exclusive, international, right to use the assets without charge for so long as the royalties are paid as agreed.

Royalties issued by substantial businesses will eventually be traded on exchanges, as were they convertible or participating obligations. When this occurs royalty issuers and investors will be able benefit from improved liquidity. Presently royalties are negotiable but intermediaries must bring buyers and sellers together. Once there is an open market for royalties the issuers will be able to negotiate more favorable terms and the investors will have an asset benefitting from market liquidity. It is also probable that royalties will be marginable providing for the use of leverage as seems appropriate due to the inherent nature of revenue based royalties being so much less risky than equities.

Royalties are the better way of both investing in and financing of privately owned companies.

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