

MINING BLOG

A QUICK PRIMER ON ROYALTY INTERESTS IN THE MINING INDUSTRY⁽¹⁾

Definitions

Net Smelter Return ("NSR") is a royalty based on the gross metal production from the property, less deduction of certain limited costs including smelting, refining, transportation and insurance.

Net Profits Royalty ("NPI") or Net Proceeds Royalty ("NPR") is a royalty based on the profit realized after deducting costs related to production as set out in the royalty agreement. NPI or NPR payments generally begin after payback of capital costs. Although the royalty holder is not responsible for providing capital, covering operating losses or environmental liabilities, increases in production costs will affect net profit and royalties payable.

Gross Revenue Royalty ("GRR") is generally more suitable for bulk commodities such as coal or iron ore where the royalty may be a simple percentage of the value of the ore shipped from the mine before subsequent treatment charges. May be based on mine gate, invoiced or free-on-board price.

Minimum Royalty ("MR") is a provision included in some royalties that requires fixed payments at a certain level even if the project is not producing, or the project is producing at too low a rate to achieve the minimum.

Advance Minimum Royalty ("AMR") is similar to MR except that once production begins, the minimum payments already paid are often credited against subsequent royalty payments from production that exceeds the minimum.

Sliding Scale Royalty ("Sliding Scale") refers to royalties where the royalty percentage is variable. Generally this royalty percentage is indexed to metal prices, grade, capital repayment schedules or a production threshold. Generally, a minimum or maximum percentage would be applied to such a royalty.

Capped Royalty ("Capped") refers to royalties that expire or cease payment after a particular cumulative royalty amount has been paid or a set production volume threshold or time period has been reached.

Notes:

- (1) Reference is made to the definitions contained in the websites of New Gold, Inc., Franco-Nevada Corporation and Anglo Pacific Group plc.



Michael G. Hobart, Partner
mhobart@foglers.com
416.941.8856

Michael Hobart is a partner in the Business Law Group's Securities department.

Fogler, Rubinoff LLP
Lawyers
77 King Street West
Suite 3000, P.O. Box 95
TD Centre North Tower
Toronto, ON M5K 1G8

Tel: 416.864.9700
Fax: 416.941.8852

foglers.com