

ROYAL GOLD INC  
Form 10-Q  
November 03, 2011  
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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2011

or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-13357

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## Royal Gold, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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**Delaware**  
(State or Other Jurisdiction of  
Incorporation)

**54-0835164**  
(I.R.S. Employer  
Identification No.)

**1660 Wynkoop Street, Suite 1000**  
**Denver, Colorado**  
(Address of Principal Executive Office)

**80202**  
(Zip Code)

Registrant's telephone number, including area code **(303) 573-1660**

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 54,765,490 shares of the Company's common stock, par value \$0.01 per share, outstanding as of October 27, 2011. In addition as of such date, there were 814,555 exchangeable shares of RG Exchangeco Inc. outstanding which are exchangeable at any time into shares of the Company's common stock on a one-for-one basis and entitle their holders to dividend and other rights economically equivalent to those of the Company's common stock.



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## Consolidated Balance Sheets

(Unaudited, in thousands except share data)

|  | September 30,<br>2011 | June 30,<br>2011 |
|--|-----------------------|------------------|
| <b>ASSETS</b>  |                       |                  |
| Cash and equivalents   | \$ 123,401            | \$ 114,155       |
| Royalty receivables  | 54,778                | 48,828           |
| Prepaid expenses and other current assets  | 6,343                 | 6,290            |
| Total current assets   | 184,522               | 169,273          |
| Royalty interests in mineral properties, net (Note 2)  | 1,671,943             | 1,690,439        |
| Available for sale securities (Note 3)   | 23,528                | 28,876           |
| Other assets   | 12,486                | 14,114           |
| Total assets   | \$ 1,892,479          | \$ 1,902,702     |
| <b>LIABILITIES</b>   |                       |                  |
| Current portion of long-term debt (Note 4)   | \$ 15,600             | \$ 15,600        |
| Accounts payable   | 2,224                 | 2,499            |
| Dividends payable  | 6,112                 | 6,093            |
| Income tax payable   | 8,870                 | 676              |
| Other current liabilities  | 3,204                 | 3,993            |
| Total current liabilities  | 36,010                | 28,861           |
| Long-term debt (Note 4)  | 176,600               | 210,500          |
| Net deferred tax liabilities   | 153,028               | 152,564          |
| Uncertain tax positions  | 19,140                | 18,836           |
| Other long-term liabilities  | 4,015                 | 4,246            |
| Total liabilities  | 388,793               | 415,007          |
| Commitments and contingencies (Note 11)  |                       |                  |
| <b>EQUITY</b>  |                       |                  |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized; and 0 shares issued  |                       |                  |
| Common stock, \$.01 par value, 100,000,000 shares authorized; and 54,450,165 and 54,231,787 shares outstanding, respectively | 545                   | 543              |
| Exchangeable shares, no par value, 1,806,649 shares issued, less 992,094 and 900,854 redeemed shares, respectively           | 35,849                | 39,864           |
| Additional paid-in capital   | 1,330,012             | 1,319,697        |
| Accumulated other comprehensive (loss) income  | (5,250)               | 54               |
| Accumulated earnings   | 116,385               | 100,004          |
| Total Royal Gold stockholders' equity  | 1,477,541             | 1,460,162        |
| Non-controlling interests  | 26,145                | 27,533           |
| Total equity   | 1,503,686             | 1,487,695        |
| Total liabilities and equity   | \$ 1,892,479          | \$ 1,902,702     |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents**ROYAL GOLD, INC.**

## Consolidated Statements of Operations and Comprehensive Income

(Unaudited, in thousands except share data)

|  | <b>For The Three Months Ended</b> |                      |
|--|-----------------------------------|----------------------|
|  | <b>September 30,</b>              | <b>September 30,</b> |
|  | <b>2011</b>                       | <b>2010</b>          |
| Royalty revenues   | \$ 64,465                         | \$ 45,338            |
| Costs and expenses   |                                   |                      |
| General and administrative   | 6,298                             | 5,045                |
| Production taxes   | 2,150                             | 558                  |
| Depreciation, depletion and amortization                           | 17,221                            | 18,925               |
| Restructuring on royalty interests in mineral properties           | 1,328                             |                      |
| Total costs and expenses   | 26,997                            | 24,528               |
| Operating income   | 37,468                            | 20,810               |
| Interest and other income  | 2,833                             | 1,424                |
| Interest and other expense   | (1,779)                           | (2,305)              |
| Income before income taxes   | 38,522                            | 19,929               |
| Income tax expense   | (12,381)                          | (6,927)              |
| Net income   | 26,141                            | 13,002               |
| Net income attributable to non-controlling interests               | (3,646)                           | (1,171)              |
| Net income attributable to Royal Gold stockholders                 | \$ 22,495                         | \$ 11,831            |
| Net income   | \$ 26,141                         | \$ 13,002            |
| Adjustments to comprehensive income, net of tax                    |                                   |                      |
| Unrealized change in market value of available for sale securities | (5,304)                           | 7                    |
| Comprehensive income   | 20,837                            | 13,009               |
| Comprehensive income attributable to non-controlling interests     | (3,646)                           | (1,171)              |
| Comprehensive income attributable to Royal Gold stockholders       | \$ 17,191                         | \$ 11,838            |
| Net income per share available to Royal Gold common stockholders:  |                                   |                      |
| Basic earnings per share   | \$ 0.41                           | \$ 0.22              |
| Basic weighted average shares outstanding                          | 55,183,719                        | 54,986,700           |
| Diluted earnings per share   | \$ 0.40                           | \$ 0.21              |
| Diluted weighted average shares outstanding                        | 55,491,354                        | 55,250,028           |
| Cash dividends declared per common share                           | \$ 0.11                           | \$ 0.09              |

The accompanying notes are an integral part of these consolidated financial statements.

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## Consolidated Statements of Cash Flows

(Unaudited, in thousands)

|  | <b>For The Three Months Ended</b> |                      |
|--|-----------------------------------|----------------------|
|  | <b>September 30,</b>              | <b>September 30,</b> |
|  | <b>2011</b>                       | <b>2010</b>          |
| <b>Cash flows from operating activities:</b>   |                                   |                      |
| Net income   | \$ 26,141                         | \$ 13,002            |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |                                   |                      |
| Depreciation, depletion and amortization   | 17,221                            | 18,925               |
| Gain on distribution to non-controlling interest   | (3,018)                           | (912)                |
| Non-cash stock-based compensation expense  | 2,198                             | 1,285                |
| Tax benefit of stock-based compensation exercises  | (1,567)                           | (521)                |
| Restructuring on royalty interests in mineral properties                                 | 1,328                             |                      |
| Deferred tax expense (benefit)   | 508                               | (521)                |
| <b>Changes in assets and liabilities:</b>  |                                   |                      |
| Royalty receivables  | (5,950)                           | (2,678)              |
| Prepaid expenses and other assets  | 197                               | 1,421                |
| Accounts payable   | 70                                | 409                  |
| Income taxes payable   | 9,762                             | 4,887                |
| Other liabilities  | (716)                             | (1,063)              |
| Net cash provided by operating activities  | \$ 46,174                         | \$ 34,234            |
| <b>Cash flows from investing activities:</b>   |                                   |                      |
| Acquisition of royalty interests in mineral properties                                   |                                   | (25,000)             |
| Proceeds on sale of Inventory - restricted   | 4,455                             | 1,471                |
| Deferred acquisition costs   |                                   | (695)                |
| Other  | (111)                             | (33)                 |
| Net cash provided by (used in) investing activities                                      | \$ 4,344                          | \$ (24,257)          |
| <b>Cash flows from financing activities:</b>   |                                   |                      |
| Repayment of debt  | (33,900)                          | (6,500)              |
| Common stock dividends   | (6,095)                           | (4,973)              |
| Distribution to non-controlling interests  | (5,380)                           | (1,971)              |
| Proceeds from the issuance of common stock   | 2,536                             |                      |
| Tax benefit of stock-based compensation exercises  | 1,567                             | 521                  |
| Other  |                                   | (397)                |
| Net cash (used in) financing activities  | \$ (41,272)                       | \$ (13,320)          |
| Net increase (decrease) in cash and equivalents  | 9,246                             | (3,343)              |
| Cash and equivalents at beginning of period  | 114,155                           | 324,846              |
| Cash and equivalents at end of period  | \$ 123,401                        | \$ 321,503           |

The accompanying notes are an integral part of these consolidated financial statements.

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**ROYAL GOLD, INC.**

Notes to Consolidated Financial Statements

(Unaudited)

**1. OPERATIONS, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

**Operations**

Royal Gold, Inc. ( Royal Gold , the Company , we , us , or our ), together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties and similar interests. Royalties are passive (non-operating) interests in mining projects that provide the right to revenue or production from the project after deducting specified costs, if any.

**Summary of Significant Accounting Policies**

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ( U.S. GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X under the Securities Exchange Act of 1934, as amended. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. In the opinion of management, all adjustments which are of a normal recurring nature considered necessary for a fair presentation of our interim financial statements have been included in this Form 10-Q. Operating results for the three months ended September 30, 2011, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2012. These interim unaudited financial statements should be read in conjunction with the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission on August 18, 2011 ( Fiscal 2011 10-K ).

*Reclassification*

Costs and expenses previously classified as *Exploration and business development* are now included within the *General and administrative* caption. Further, certain amounts previously classified as *Costs of Operations* are now included within the *General and administrative* caption or the *Production taxes* caption in the Company's consolidated statements of operations and comprehensive income. The following table reflects these reclassifications for the three months ended September 30, 2010:

| Previously<br>Reported<br>Balance | Reclass<br>Adjustment | Adjusted<br>Balance |
|-----------------------------------|-----------------------|---------------------|
|-----------------------------------|-----------------------|---------------------|



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| Costs and expenses (in thousands):   |    |       |    |         |       |
|--------------------------------------|----|-------|----|---------|-------|
| Costs of operations                  | \$ | 1,192 | \$ | (1,192) | \$    |
| General and administrative           |    | 3,724 |    | 1,321   | 5,045 |
| Production taxes                     |    |       |    | 558     | 558   |
| Exploration and business development |    | 687   |    | (687)   |       |

These reclassifications had no effect on reported operating income or net income attributable to Royal Gold stockholders for the prior period presented.

### Recently Issued Accounting Standards

In June 2011, the Financial Accounting Standards Board issued ASU No. 2011-05, *Presentation of Comprehensive Income*. The ASU addresses the presentation of comprehensive income and provides entities with the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements.

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## Notes to Consolidated Financial Statements

(Unaudited)

The provisions of this ASU are effective for the Company's quarter beginning July 1, 2012. Since this ASU addresses financial presentation only, its adoption will not impact the Company's consolidated position or results of operations.

**2. ROYALTY INTERESTS IN MINERAL PROPERTIES**

The following summarizes the Company's royalty interests in mineral properties as of September 30, 2011 and June 30, 2011.

| As of September 30, 2011<br>(Amounts in thousands): | Cost         | Restructuring | Accumulated<br>Depletion | Net          |
|---|--------------|---------------|--------------------------|--------------|
| Production stage royalty interests:                 |              |               |                          |              |
| Andacollo   | \$ 272,998   | \$            | \$ (17,065)              | \$ 255,933   |
| Voisey's Bay  | 150,138      |               | (18,505)                 | 131,633      |
| Peñasquito  | 99,172       |               | (6,209)                  | 92,963       |
| Las Cruces  | 57,230       |               | (3,318)                  | 53,912       |
| Mulatos   | 48,092       |               | (14,986)                 | 33,106       |
| Wolverine   | 45,158       |               | (260)                    | 44,898       |
| Dolores   | 44,878       |               | (4,500)                  | 40,378       |
| Canadian Malartic                                   | 38,800       |               | (999)                    | 37,801       |
| Gwalia Deeps  | 28,119       |               | (2,270)                  | 25,849       |
| Holt  | 25,428       |               | (1,115)                  | 24,313       |
| Inata   | 24,871       |               | (5,892)                  | 18,979       |
| Leeville  | 18,322       |               | (13,372)                 | 4,950        |
| Robinson  | 17,825       |               | (9,119)                  | 8,706        |
| Cortez  | 10,630       |               | (9,637)                  | 993          |
| Other   | 178,144      |               | (101,668)                | 76,476       |
|   | 1,059,805    |               | (208,915)                | 850,890      |
| Development stage royalty interests:                |              |               |                          |              |
| Pascua-Lama   | 372,105      |               |                          | 372,105      |
| Mt. Milligan  | 227,596      |               |                          | 227,596      |
| Other (Note 6)                                      | 26,251       | (1,328)       |                          | 24,923       |
|   | 625,952      | (1,328)       |                          | 624,624      |
| Exploration stage royalty interests                 | 196,429      |               |                          | 196,429      |
| Total royalty interests in mineral properties       | \$ 1,882,186 | \$ (1,328)    | \$ (208,915)             | \$ 1,671,943 |

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## Notes to Consolidated Financial Statements

(Unaudited)

| <b>As of June 30, 2011</b><br><b>(Amounts in thousands):</b> | <b>Cost</b>  | <b>Accumulated<br/>Depletion</b> | <b>Net</b>   |
|--|--------------|----------------------------------|--------------|
| <b>Production stage royalty interests:</b>                   |              |                                  |              |
| Andacollo  | \$ 272,998   | \$ (13,076)                      | \$ 259,922   |
| Voisey s Bay   | 150,138      | (15,526)                         | 134,612      |
| Peñasquito   | 99,172       | (5,457)                          | 93,715       |
| Las Cruces   | 57,230       | (2,615)                          | 54,615       |
| Mulatos  | 48,092       | (14,199)                         | 33,893       |
| Dolores  | 44,878       | (4,005)                          | 40,873       |
| Wolverine  | 45,158       | (257)                            | 44,901       |
| Canadian Malartic  | 38,800       | (367)                            | 38,433       |
| Holt   | 25,428       | (620)                            | 24,808       |
| Inata  | 24,871       | (5,158)                          | 19,713       |
| Gwalia Deeps   | 22,854       | (1,715)                          | 21,139       |
| Leeville   | 18,322       | (12,920)                         | 5,402        |
| Robinson   | 17,825       | (8,827)                          | 8,998        |
| Cortez   | 10,630       | (9,619)                          | 1,011        |
| Other  | 178,143      | (97,386)                         | 80,757       |
|  | 1,054,539    | (191,747)                        | 862,792      |
| <b>Development stage royalty interests:</b>                  |              |                                  |              |
| Pascua-Lama  | 372,105      |                                  | 372,105      |
| Mt. Milligan   | 227,596      |                                  | 227,596      |
| Other  | 26,250       |                                  | 26,250       |
|  | 625,951      |                                  | 625,951      |
| Exploration stage royalty interests                          | 201,696      |                                  | 201,696      |
| Total royalty interests in mineral properties                | \$ 1,882,186 | \$ (191,747)                     | \$ 1,690,439 |

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## Notes to Consolidated Financial Statements

(Unaudited)

**3. AVAILABLE FOR SALE SECURITIES**

The Company's available for sale securities as of September 30, 2011 and June 30, 2011 consists of the following:

|                      | Cost Basis | As of September 30, 2011<br>(Amounts in thousands)<br>Unrealized |            | Fair Value |
|----------------------|------------|--|------------|------------|
|                      |            | Gain   | Loss       |            |
| Non-current:         |            |  |            |            |
| Seabridge Gold, Inc. | \$ 28,574  |  | (5,243)    | \$ 23,331  |
| Other                | 203        |  | (6)        | 197        |
|                      | \$ 28,777  | \$   | \$ (5,249) | \$ 23,528  |

|                      | Cost Basis | As of June 30, 2011<br>(Amounts in thousands)<br>Unrealized |         | Fair Value |
|----------------------|------------|---|---------|------------|
|                      |            | Gain  | Loss    |            |
| Non-current:         |            |   |         |            |
| Seabridge Gold, Inc. | \$ 28,574  |   | (28)    | \$ 28,546  |
| Other                | 203        | 127   |         | \$ 330     |
|                      | \$ 28,777  | \$ 127  | \$ (28) | \$ 28,876  |

**4. DEBT**

The Company's current and non-current debt as of September 30, 2011 and June 30, 2011 consists of the following:

|                 | As of September 30, 2011<br>(Amounts in thousands) |             | As of June 30, 2011<br>(Amounts in thousands) |             |
|-----------------|--|-------------|---|-------------|
|                 | Current  | Non-current | Current                                       | Non-current |
| Credit facility | \$   | \$ 70,000   | \$  | \$ 100,000  |
| Term loan       | 15,600   | 106,600     | 15,600  | 110,500     |
| Total debt      | \$ 15,600  | \$ 176,600  | \$ 15,600                                     | \$ 210,500  |

As discussed in the Company's Fiscal 2011 10-K, the Company has financial covenants associated with its revolving credit facility and term loan. At September 30, 2011, the Company was in compliance with each financial covenant.



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## Notes to Consolidated Financial Statements

(Unaudited)

**5. STOCK-BASED COMPENSATION**

The Company recognized stock-based compensation expense as follows:

|  | <b>For The Three Months Ended</b> |                      |
|--|-----------------------------------|----------------------|
|  | <b>September 30,</b>              | <b>September 30,</b> |
|  | <b>2011</b>                       | <b>2010</b>          |
|  | <b>(Amounts in thousands)</b>     |                      |
| Stock options                          | \$ 115                            | \$ 131               |
| Stock appreciation rights              | 295                               | 167                  |
| Restricted stock                       | 1,086                             | 470                  |
| Performance stock                      | 702                               | 517                  |
| Total stock-based compensation expense | \$ 2,198                          | \$ 1,285             |

Stock-based compensation expense is included within general and administrative in the consolidated statements of operations and comprehensive income.

There were 18,796 and 0 stock options granted during the three months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, there was \$0.9 million of unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.3 years.

There were 42,804 and 0 stock-settled stock appreciation rights granted during the three months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, there was \$2.2 million of unrecognized compensation expense related to non-vested stock appreciation rights, which is expected to be recognized over a weighted-average period of 2.1 years.

There were 44,950 and 0 shares of restricted stock granted during the three months ended September 30, 2011 and 2010, respectively. As of September 30, 2011, there was \$7.3 million of unrecognized compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted-average vesting period of 4.0 years.

There were 49,600 and 0 shares of performance stock granted during the three months ended September 30, 2011 and 2010, respectively. During the three months ended September 30, 2011 and 2010, 0 and 74,500 shares of performance stock, respectively, vested at a weighted average grant date fair market value of \$0 and \$42.53, respectively. As of September 30, 2011, there was \$3.7 million of unrecognized

compensation expense related to non-vested performance stock, which is expected to be recognized over a weighted-average vesting period of 0.9 years.

**6. RESTRUCTURING ON ROYALTY INTERESTS IN MINERAL PROPERTIES**

The Company owns a net smelter return royalty on the Relief Canyon property located in Nevada. From November 2010 to October 2011, the Company has been involved in managing this interest in bankruptcy proceedings of the owner of the Relief Canyon project. On August 24, 2011, the Company entered into an Amended and Restated Net Smelter Return Royalty Agreement with the property owner, pursuant to which the royalty rate was reduced from 4% to 2%, and the ten mile area of interest was eliminated. The Company elected to amend the royalty agreement in order to enhance project economics and the probability of recognizing royalty revenue. As a result of the amendment to the Relief Canyon royalty agreement, the Company recorded a restructuring charge of approximately \$1.3 million during the quarter ended September 30, 2011, which was based on the Company's estimate of fair value. The Company's carrying value for the Relief Canyon royalty interest was approximately \$1.2 million as of September 30, 2011.

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## Notes to Consolidated Financial Statements

(Unaudited)

**7. EARNINGS PER SHARE ( EPS )**

Basic earnings per common share were computed using the weighted average number of shares of common stock outstanding during the period, considering the effect of participating securities. Unvested stock-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock awards contain non-forfeitable dividend rights and participate equally with common stock with respect to dividends issued or declared. The Company's unexercised stock options, unexercised SARs and unvested performance stock do not contain rights to dividends. Under the two-class method, the earnings used to determine basic earnings per common share are reduced by an amount allocated to participating securities. Use of the two-class method has an immaterial impact on the calculation of basic and diluted earnings per common share.

The following tables summarize the effects of dilutive securities on diluted EPS for the period:

|  | <b>For The Three Months Ended</b>        |                      |
|--|--|----------------------|
|  | <b>September 30,</b>                     | <b>September 30,</b> |
|  | <b>2011</b>                              | <b>2010</b>          |
|  | <b>(in thousands, except share data)</b> |                      |
| Net income available to Royal Gold common stockholders | \$ 22,495                                | \$ 11,831            |
| Weighted-average shares for basic EPS                  | 55,183,719                               | 54,986,700           |
| Effect of other dilutive securities                    | 307,635                                  | 263,328              |
| Weighted-average shares for diluted EPS                | 55,491,354                               | 55,250,028           |
| Basic earnings per share                               | \$ 0.41                                  | \$ 0.22              |
| Diluted earnings per share                             | \$ 0.40                                  | \$ 0.21              |

Our calculation of weighted average shares includes all of our outstanding stock: common stock and exchangeable shares. Exchangeable shares are the equivalent of common shares in that they have the same dividend rights and share equitably in undistributed earnings and are exchangeable on a one-for-one basis for shares of our common stock.

**8. INCOME TAXES**

|  | <b>For The Three Months Ended</b> |                      |
|--|-----------------------------------|----------------------|
|  | <b>September 30,</b>              | <b>September 30,</b> |
|  | <b>2011</b>                       | <b>2010</b>          |



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(Amounts in thousands, except rate)

|                    |    |        |    |       |
|--------------------|----|--------|----|-------|
| Income tax expense | \$ | 12,381 | \$ | 6,927 |
| Effective tax rate |    | 32.1%  |    | 34.8% |

The decrease in the effective tax rate for September 30, 2011 is primarily related to (i) the decrease in tax expense from changes in estimates of uncertain tax positions, and (ii) the decrease in tax expense relating to the decrease in unrealized foreign exchange gains.

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**ROYAL GOLD, INC.**

Notes to Consolidated Financial Statements

(Unaudited)

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. Federal, state and local, and non-U.S. income tax examinations by tax authorities for fiscal years before 2007.

As of September 30, 2011 and June 30, 2011, the Company had \$19.1 million and \$18.8 million of total gross unrecognized tax benefits, respectively. The increase in gross unrecognized tax benefits was primarily related to tax positions of International Royalty Corporation entities taken prior to or upon the acquisition by the Company during fiscal year 2010. These increases were offset by a decrease in the unrecognized tax benefits as a result of statute of limitations expiring during the quarter. If recognized, these unrecognized tax benefits would impact the Company's effective income tax rate.

The Company's continuing practice is to recognize potential interest and/or penalties related to unrecognized tax benefits as part of its income tax expense. At September 30, 2011 and June 30, 2011, the amount of accrued income-tax-related interest and penalties was \$1.6 million and \$1.5 million, respectively.

**9. SEGMENT INFORMATION**

The Company manages its business under a single operating segment, consisting of royalty acquisition and management activities. Royal Gold's royalty revenue and long-lived assets (royalty interests in mineral properties, net) are geographically distributed as shown in the following table.

|               | Royalty Revenue<br>Three Months Ended<br>September 30, |      | Royalty Interests in Mineral Property, net |                        |
|---------------|--|------|--|------------------------|
|               | 2011   | 2010 | As of<br>September 30, 2011                | As of<br>June 30, 2011 |
| Chile         | 27%  | 19%  | 40%  | 40%                    |
| United States | 24%  | 26%  | 3%   | 3%                     |
| Canada        | 20%  | 9%   | 36%  | 36%                    |
| Mexico        | 17%  | 13%  | 11%  | 11%                    |
| Australia     | 6%   | 7%   | 4%   | 5%                     |
| Africa        | 4%   | 23%  | 2%   | 2%                     |
| Other         | 2%   | 3%   | 4%   | 3%                     |

**10. FAIR VALUE MEASUREMENTS**

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FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Quoted prices for identical instruments in active markets;

Level 2: Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs and significant value drivers are observable in active markets; and

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## Notes to Consolidated Financial Statements

(Unaudited)

Level 3: Prices or valuation techniques requiring inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The following table sets forth the Company's financial assets measured at fair value on a recurring basis (at least annually) by level within the fair value hierarchy.

|                                 | Fair Value at September 30, 2011<br>(In thousands) |           |         |         |
|---------------------------------|--|-----------|---------|---------|
|                                 | Total  | Level 1   | Level 2 | Level 3 |
| Assets:                         |  |           |         |         |
| Money market investments(1)     | \$ 284   | \$ 284    | \$      | \$      |
| Marketable equity securities(2) | 23,528   | 23,528    |         |         |
|                                 | \$ 23,812  | \$ 23,812 | \$      | \$      |

(1) Included in *Cash and equivalents* in the Company's consolidated balance sheets.

(2) Included in *Available for sale securities* in the Company's consolidated balance sheets.

The carrying amount of our long-term debt (including the current portion) approximates fair value as of September 30, 2011.

The Company invests in money market funds, which are traded by dealers or brokers in active over-the-counter markets. The Company's money market funds, which are invested in United States treasury bills or United States treasury backed securities, are classified within Level 1 of the fair value hierarchy.

The Company's marketable equity securities classified within Level 1 of the fair value hierarchy are valued using quoted market prices in active markets. The fair value of the Level 1 marketable equity securities is calculated as the quoted market price of the marketable equity security multiplied by the quantity of shares held by the Company.

As of September 30, 2011, the Company also had assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis like those associated with royalty interests in mineral properties, intangible assets and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition are applicable if any of these assets are determined to be impaired; however, no triggering events have occurred relative to any of these assets during the three months ended September 30, 2011. If

recognition of these assets at their fair value becomes necessary, such measurements will be determined utilizing Level 3 inputs.

**11. COMMITMENTS AND CONTINGENCIES**

*Mt. Milligan Gold Stream Acquisition*

As discussed in more detail in the Company's Fiscal 2011 10-K, on October 20, 2010, the Company entered into a Purchase and Sale Agreement (the "Purchase and Sale Agreement") pursuant to which a wholly-owned subsidiary of the Company, RGLD Gold AG, acquired the right to 25% of the payable gold produced from the Mt. Milligan copper-gold project in British Columbia (the "Gold Purchase Transaction") from Terrane Metals Corp. ("Terrane"), a wholly-owned subsidiary of Thompson Creek Metals Company Inc. ("Thompson Creek"). Pursuant to the Purchase and Sale Agreement, RGLD Gold AG paid \$226.5 million at the closing of the Gold Purchase Transaction. In the future, upon satisfaction of certain conditions set forth in the Purchase and Sale Agreement, RGLD Gold AG will make additional payments (each, an "Additional Payment") to Terrane in an amount not to exceed \$85 million in the

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**ROYAL GOLD, INC.**

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(Unaudited)

aggregate to fund a portion of the development costs of the Mt. Milligan project. The Company did not make any Additional Payments to Thompson Creek during the three months ended September 30, 2011. On October 13, 2011, the Company made a \$13.7 million Additional Payment to Thompson Creek, resulting in a remaining commitment of \$71.3 million as of that date.

*Voisey's Bay*

The Company owns a royalty on the Voisey's Bay mine in Newfoundland and Labrador owned by Vale Newfoundland & Labrador Limited (VNL). The royalty is owned by the Labrador Nickel Royalty Limited Partnership (LNRLP), in which the Company's wholly-owned indirect subsidiary, Canadian Minerals Partnership, is the general partner and 89.99% owner. The remaining interests in LNRLP are owned by Altius Investments Ltd. (10%), a company unrelated to Royal Gold, and the Company's wholly-owned indirect subsidiary, Voisey's Bay Holding Corporation (0.01%).

On October 16, 2009, LNRLP filed a claim in the Supreme Court of Newfoundland and Labrador Trial Division against Vale Inco Limited (Vale Inco) and its wholly-owned subsidiaries, Vale Inco Atlantic Sales Limited (VIASL) and VNL, related to calculation of the NSR on the sale of concentrates, including nickel concentrates, from the Voisey's Bay mine to Vale Inco. The claim asserts that Vale Inco is incorrectly calculating the NSR and requests an order in respect of the correct calculation of future payments. The claim also requests specific damages for underpayment of past royalties to the date of the claim in an amount not less than \$29 million, together with additional damages until the date of trial, interest, costs and other damages. The litigation is in the discovery phase.

**12. RELATED PARTY**

Crescent Valley Partners, L.P. (CVP) was formed as a limited partnership in April 1992. It owns a 1.25% net value royalty (NVR1) on production of minerals from a portion of Cortez. Denver Mining Finance Company (DMFC), our wholly-owned subsidiary, is the general partner and holds a 2.0% interest in CVP. In addition, Royal Gold holds a 29.6% limited partner interest in the partnership, while our Chairman of the Board of Directors, the Chairman of our Audit Committee and one other member of our board of directors hold an aggregate 35.56% limited partner interest. The general partner performs administrative services for CVP in receiving and processing the royalty payments from the operator, including the disbursement of royalty payments and record keeping for in-kind distributions to the limited partners.

CVP receives its royalty from the Cortez Joint Venture in-kind. The Company, as well as certain other limited partners, sell their pro-rata shares of such gold immediately and receive distributions in cash, while CVP holds gold for certain other limited partners. Such gold inventories, which totaled 12,735 and 15,255 ounces of gold as of September 30, 2011 and June 30, 2011, respectively, are held by a third party refinery in Utah for the account of the limited partners of CVP. The inventories are carried at historical cost and are classified within *Other assets* on the Company's consolidated balance sheets. The carrying value of the gold in inventory was approximately \$6.9 million and \$8.1 million as of

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September 30, 2011 and June 30, 2011, respectively, while the fair value of such ounces was approximately \$20.6 million and \$23.0 million as of September 30, 2011 and June 30 2011, respectively. None of the gold currently held in inventory as of September 30, 2011 and June 30, 2011, is attributed to Royal Gold, as the gold allocated to Royal Gold's CVP partnership interest is typically sold within five days of receipt.

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**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is intended to provide information to assist you in better understanding and evaluating our financial condition and results of operations. We recommend that you read this MD&A in conjunction with our consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q, as well as our Annual Report on Form 10-K for the fiscal year ended June 30, 2011, filed with the Securities and Exchange Commission (the SEC ) on August 18, 2011 (the Fiscal 2011 10-K ).

This MD&A contains forward-looking information. You should review our important note about forward-looking statements following this MD&A.

We refer to GSR, NSR, and other types of royalty interests throughout this MD&A. These terms are defined in our Fiscal 2011 10-K.

**Overview**

Royal Gold, together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties and similar interests. Royalties are passive (non-operating) interests in mining projects that provide the right to revenue or production from the project after deducting specified costs, if any. We seek to acquire existing royalties or to finance projects that are in production or in development stage in exchange for royalties or similar interests. We are engaged in a continual review of opportunities to acquire existing royalties, to create new royalties or similar interests through the financing of mine development or exploration, or to acquire companies that hold royalties. We currently, and generally at any time, have acquisition opportunities in various stages of active review, including, for example, our engagement of consultants and advisors to analyze particular opportunities, analysis of technical, financial and other confidential information, submission of indications of interest, participation in preliminary discussions and involvement as a bidder in competitive auctions.

As of September 30, 2011, the Company owns royalties on 37 producing properties, 22 development stage properties and 127 exploration stage properties, of which the Company considers 39 to be evaluation stage projects. The Company uses evaluation stage to describe exploration stage properties that contain mineralized material and on which operators are engaged in the search for reserves. We do not conduct mining operations nor are we required to contribute to capital costs (except as contractually obligated to as part of the Mt. Milligan gold stream transaction), exploration costs, environmental costs or other mining costs on the properties in which we hold royalty interests. During the three months ended September 30, 2011, we focused on the management of our existing royalty and similar interests and the acquisition of royalty and similar interests.

Our financial results are primarily tied to the price of gold, silver, copper, nickel and other metals, as well as production from our producing stage royalty interests. The price of gold, silver, copper, nickel and other metals have fluctuated widely in recent years. The marketability and the price of gold, silver, copper, nickel and other metals are influenced by numerous factors beyond the control of the Company and may have a



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material and adverse effect on the Company's results of operations and financial condition.

For the three months ended September 30, 2011 and 2010, gold, silver, copper and nickel price averages and percentage of royalty revenues by metal were as follows:

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| Metal             | Three months ended |                               |                    |                               |
|-------------------|--------------------|-------------------------------|--------------------|-------------------------------|
|                   | September 30, 2011 |                               | September 30, 2010 |                               |
|                   | Average Price      | Percentage of Royalty Revenue | Average Price      | Percentage of Royalty Revenue |
| Gold (\$/ounce)   | \$ 1,702           | 70%                           | \$ 1,227           | 73%                           |
| Silver (\$/ounce) | \$ 38.80           | 6%                            | \$ 18.97           | 4%                            |
| Copper (\$/pound) | \$ 4.07            | 11%                           | \$ 3.29            | 9%                            |
| Nickel (\$/pound) | \$ 10.00           | 9%                            | \$ 9.61            | 9%                            |
| Other             | N/A                | 4%                            | N/A                | 5%                            |

**Principal Royalties**

Our principal producing and development royalty interests are shown in the following tables (listed alphabetically). The Company considers both historical and future potential revenues in determining which royalties in our portfolio are principal to our business. Estimated future potential royalty revenues from both producing and development properties are based on a number of factors, including reserves subject to our royalty interests, production estimates, feasibility studies, metal price assumptions, mine life, legal status and other factors and assumptions, any of which could change and could cause Royal Gold to conclude that one or more of such royalties is no longer principal to our business.

Please refer to our Fiscal 2011 10-K for further discussion of our principal producing and development royalty interests.

Producing Properties

| Mine              | Location                          | Operator  | Royalty<br>(Gold unless otherwise stated)  |
|-------------------|-----------------------------------|---|--|
| Andacollo         | Region IV, Chile                  | Compañía Minera Teck Carmen de Andacollo ( Teck ) | 75% of gold produced (until 910,000 payable ounces; 50% thereafter)  |
| Canadian Malartic | Quebec, Canada                    | Osisko Mining Corporation ( Osisko )              | 1.0% to 1.5% sliding-scale NSR   |
| Cortez            | Nevada, USA                       | Barrick Gold Corporation ( Barrick )              | GSR1: 0.40% to 5.0% sliding-scale GSR<br>GSR2: 0.40% to 5.0% sliding-scale GSR<br>GSR3: 0.71% GSR<br>NVR1: 0.39% NVR |
| Dolores           | Chihuahua, Mexico                 | Minefinders Corporation, Ltd. ( Minefinders )     | 3.25% NSR; 2.0% NSR (silver)   |
| Holt              | Ontario, Canada                   | St Andrew Goldfields Ltd. ( St Andrew )           | 0.00013 x quarterly average gold price NSR   |
| Las Cruces        | Andalucía, Spain                  | Inmet Mining Corporation ( Inmet )                | 1.5% NSR (copper)  |
| Leeville          | Nevada, USA                       | Newmont Mining Corporation ( Newmont )            | 1.8% NSR   |
| Mulatos(1)        | Sonora, Mexico                    | Alamos Gold, Inc. ( Alamos )                      | 1.0% to 5.0% sliding-scale NSR   |
| Peñasquito        | Zacatecas, Mexico                 | Goldcorp Inc. ( Goldcorp )                        | 2.0% NSR (gold, silver, lead, zinc)  |
| Robinson          | Nevada, USA                       | Quadra FNX Mining Ltd. ( Quadra )                 | 3.0% NSR (copper, gold, silver, molybdenum)  |
| Voisey s Bay      | Newfoundland and Labrador, Canada | Vale  | 2.7% NSR (nickel, copper, cobalt)  |
| Wolverine         |                                   | Yukon Zinc Corporation ( Yukon Zinc )             |  |

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Yukon Territory,  
Canada

0.00% to 9.45% sliding-scale NSR (gold  
and silver)

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(1) The Mulatos royalty is capped at 2.0 million gold ounces of production. Approximately 761,000 cumulative ounces of gold have been produced as of September 30, 2011.

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Development Properties

| Mine         | Location                    | Operator   | Royalty or similar interests<br>(Gold unless otherwise stated)        |
|--------------|-----------------------------|--|---|
| Mt. Milligan | British Columbia,<br>Canada | Thompson Creek Metals Inc. ( Thompson<br>Creek ) | 25% of the payable gold(1)  |
| Pascua-Lama  | Region III, Chile           | Barrick  | 0.78% to 5.23% sliding-scale NSR<br>1.05% fixed rate royalty (copper) |

(1) 25% of payable gold with a fixed cost of \$400 per ounce until 550,000 ounces are delivered to Royal Gold; \$450 thereafter.

**Operators Production Estimates by Royalty for Calendar 2011**

We received annual production estimates from the operators of our producing mines during the first calendar quarter of 2011. The following table shows such production estimates for our principal producing properties for calendar 2011 as well as the actual production reported to us by the various operators through September 30, 2011. The estimates and production reports are prepared by the operators of the mining properties. We do not participate in the preparation or calculation of the operators' estimates or production reports and have not independently assessed or verified the accuracy of such information. Please refer to Recent Developments, Property Developments below within this MD&A for further discussion on any updates at our principal producing or development properties.

Operators Production Estimate by Royalty for Calendar 2011 and Reported Production

Principal Producing Properties

For the period January 1, 2011 through September 30, 2011

| Royalty              | Calendar 2011 Operator's Production<br>Estimate(1) |                 |                       | Reported Production through<br>September 30, 2011(2) |                 |                       |
|----------------------|--|-----------------|-----------------------|--|-----------------|-----------------------|
|                      | Gold<br>(oz.)                                      | Silver<br>(oz.) | Base Metals<br>(lbs.) | Gold<br>(oz.)  | Silver<br>(oz.) | Base Metals<br>(lbs.) |
| Andacollo            | 49,000   |                 |                       | 35,638   |                 |                       |
| Canadian Malartic(3) | 359,000  |                 |                       | 96,111   |                 |                       |
| Cortez GSR1          | 125,000  |                 |                       | 111,613  |                 |                       |
| Cortez GSR2          | 1,000  |                 |                       | 825  |                 |                       |
| Cortez GSR3          | 126,000  |                 |                       | 112,438  |                 |                       |
| Cortez NVR1          | 91,000   |                 |                       | 85,637   |                 |                       |
| Dolores(4)           | 65,000   | 3.3 million     |                       | 53,708   | 2.7 million     |                       |
| Holt(5)              | 23,000   |                 |                       | 21,211   |                 |                       |
| Las Cruces           |  |                 |                       |  |                 |                       |
|                      | <i>Copper</i>                                      |                 | 111 million           |  |                 | 64.3 million          |
| Leeville             | 454,000  |                 |                       | 315,725  |                 |                       |
| Mulatos(6)           | 145,000  |                 |                       | 103,152  |                 |                       |
| Peñasquito(7)        | 250,000  |                 |                       | 164,948  | 12.9 million    |                       |

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|                 |               |        |     |            |               |
|-----------------|---------------|--------|-----|------------|---------------|
|                 | <i>Lead</i>   |        |     |            | 101.8 million |
|                 | <i>Zinc</i>   |        |     |            | 187.3 million |
| Robinson(8)     |               | 25,000 |     | 27,017     |               |
|                 | <i>Copper</i> |        |     | 95 million | 68.4 million  |
| Voisey s Bay(9) | <i>Copper</i> |        |     | N/A        | 40.4 million  |
|                 | <i>Nickel</i> |        |     | N/A        | 94.6 million  |
| Wolverine(9)    |               | N/A    | N/A | 673        | 276,267       |

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- (1) There can be no assurance that production estimates received from our operators will be achieved. Please refer to our cautionary language regarding forward-looking statements following this MD&A, as well as the Risk Factors identified in Part I, Item 1A, of our Fiscal 2010 10-K for information regarding factors that could affect actual results.
  
- (2) Reported production relates to the amount of metal sales, subject to our royalty interests, for the period January 1, 2011 through September 30, 2011, as reported to us by the operators of the mines.
  
- (3) Production estimate reflects the entire project. Production began during the second quarter of calendar 2011.
  
- (4) Minefinders estimates that calendar 2011 production for gold will be between 65,000 ounces and 70,000 ounces of gold and silver production would be between 3.3 million ounces and 3.5 million ounces of silver.
  
- (5) St Andrew estimates that calendar 2011 gold production will be between 23,000 and 26,000 ounces of gold compared to earlier guidance of 45,000 and 50,000 ounces of gold. Reported production for the nine months ended September 30, 2011, includes approximately 1,400 gold ounces attributable to the quarter ended December 31, 2010.
  
- (6) Alamos estimates that calendar 2011 gold production will be between 145,000 and 160,000 ounces of gold compared to earlier guidance of 160,000 and 175,000 ounces of gold.
  
- (7) Goldcorp estimates that calendar 2011 gold production will be 250,000 ounces compared to earlier guidance of 350,000 ounces. Goldcorp did not provide production guidance for silver, lead and zinc.
  
- (8) Quadra estimates that calendar 2011 gold production will be between 25,000 and 30,000 ounces of gold compared to earlier guidance of 45,000 ounces and 50,000 ounces of gold. Quadra estimates that copper production will be between 95 million pounds and 100 million pounds of copper compared to earlier guidance of 105 million pounds and 120 million pounds.
  
- (9) The Company did not receive calendar 2011 production guidance from the operator.

**Recent Developments**

Property Developments

The following information is provided by the operators of the property, either to Royal Gold or in various documents made publicly available.

*Andacollo*

Teck reported that activities to increase plant throughput to meet or exceed design capacity of 55,000 tonnes per day are underway and progressing on schedule. The installation of a small crusher to feed coarse ore to the pebble crusher and the increased power to the SAG mill motor were both completed during the quarter. Teck also plans to install a 20,000 tonne per day pre-crusher plant during the first quarter of 2012. In addition, Teck continues to conduct a feasibility study which is expected to be completed by the end of calendar 2011 to evaluate the possibility of increasing annual copper production to 100,000 to 120,000 tonnes.

*Canadian Malartic*

Osisko reported that they are installing two cone crushers to achieve an overall mill throughput of 55,000 to 60,000 tonnes per day. The first cone crusher is expected to be operational in the first quarter of calendar 2012, and the second cone crusher is expected to arrive on site in the early part of the second quarter of calendar 2012. Throughput averaged 36,750 tonnes per day during the quarter ended September 30, 2011.

*Dolores*

Minefinders reported that third quarter of calendar 2011 production was lower than planned due to (i) a reduction in cyanide concentration going onto the leach pad and timing of placing ore under irrigation and (ii) the west side of the phase 2 leach pad suffering a crushed collection pipe. With repair to the crushed pipe, the irrigation of fresh ore on the east side of the pad and resumption of cyanide concentration to design levels, Minefinders expects fourth quarter production to improve and they have maintained their full year production guidance.

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*Holt*

St Andrew reported that production continued to increase during the quarter as scheduled and that development activities at the mine have improved. Ramp advancement, footwall access, stope development and long-hole mining will be the primary focus for the remainder of calendar 2011. St Andrew expects to reach its steady state rate of production of 1,000 tonnes per day by the end of the first quarter of calendar 2012.

*Las Cruces*

At Inmet's Las Cruces mine, the many operating improvements installed and implemented during the last year continue to allow the operation to meet expectations. Inmet reported that they remain on track with their previously disclosed production guidance and their objective to reach 100% design capacity by the end of calendar 2011.

*Mt. Milligan*

Construction continued at the Mt. Milligan project during the quarter and the overall project remains on schedule for completion in the fourth quarter of calendar 2013.

*Mulatos*

Alamos reported that their primary cyanide supplier resumed normal shipments in August 2011, resulting in an improvement in month-over-month production. Alamos also reported that they continue to be on track to achieve their annual production guidance of between 145,000 and 160,000 ounces of gold.

*Pascua-Lama*

Barrick reported that development at Pascua-Lama advanced during the quarter with first production on track to commence in mid-calendar 2013. Approximately 50% of the projected capital costs of \$4.7 to \$5.0 billion have been committed, as of September 30, 2011. In Chile, approximately 80% of the earthworks are complete. Barrick also reiterated that they expect annual gold production to be 800,000 to 850,000 ounces in the first full five years of operation.

*Peñasquito*



Goldcorp reported record average throughput of 102,000 tonnes per day in September, offsetting lower production in July and August resulting from sulphide plant modifications and tests. Goldcorp also announced that progress continued on the supplemental ore feed system to the high pressure grinding roll circuit and the enhancement of the tailings dam facility in order to procure additional water supplies. Both of these projects are expected to be completed by the end of calendar 2011. Once these projects are complete, Goldcorp expects to reach its 130,000 tonne per day design throughput by the end of the first quarter of calendar 2012.

*Robinson*

Quadra reported that production from the Robinson mine was impacted by localized slope stability issues that resulted in a re-sequencing of the mine plan and delays in accessing a portion of the higher grade material that was originally expected to be mined in the fourth quarter of calendar 2011. As a result, Quadra revised its calendar 2011 guidance to between 95 and 100 million pounds of payable copper, lower than its previously disclosed guidance of between 105 and 120 million pounds of payable copper.

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*Voisey s Bay*

Production at Voisey s Bay was as expected during the third quarter of calendar 2011. However, our recognized royalty revenue was less than the second quarter of calendar 2011 because (i) nickel production for the quarter ended June 30, 2011, was more than 40% above expectations and (ii) a planned maintenance outage lowered production during the quarter.

**Results of Operations**

Quarter Ended September 30, 2011, Compared to Quarter Ended September 30, 2010

For the quarter ended September 30, 2011, we recorded net income attributable to Royal Gold stockholders of \$22.5 million, or \$0.41 per basic share and \$0.40 per diluted share, as compared to net income attributable to Royal Gold stockholders of \$11.8 million, or \$0.22 per basic share and \$0.21 per diluted share, for the quarter ended September 30, 2010. The increase in our earnings per share was primarily attributable to an increase in royalty revenue, as discussed further below. This increase was partially offset by an increase in general and administrative expenses, production taxes and the royalty restructuring charge during the period, which are each discussed further below.

For the quarter ended September 30, 2011, we recognized total royalty revenue of \$64.5 million, at an average gold price of \$1,702 per ounce , an average silver price of \$38.80 per ounce, an average nickel price of \$10.00 per pound and an average copper price of \$4.07 per pound, compared to royalty revenue of \$45.3 million, at an average gold price of \$1,227 per ounce, an average silver price of \$18.97 per ounce, an average nickel price of \$9.61 per pound and an average copper price of \$3.29 per pound for the quarter ended September 30, 2010. Royalty revenue and the corresponding production, attributable to our royalty interests, for the quarter ended September 30, 2011 compared to the quarter ended September 30, 2010 is as follows:

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## Royalty Revenue and Production Subject to Our Royalty Interests

Quarter Ended September 30, 2011 and 2010

(In thousands, except reported production ozs. and lbs.)

| Royalty                      | Metal(s) | Three Months Ended<br>September 30, 2011 |                           |      | Three Months Ended<br>September 30, 2010 |                           |      |
|------------------------------|----------|--|---------------------------|------|--|---------------------------|------|
|                              |          | Royalty<br>Revenue                       | Reported<br>Production(1) |      | Royalty<br>Revenue                       | Reported<br>Production(1) |      |
| Andacollo                    | Gold     | \$ 16,839                                | 13,286                    | oz.  | \$ 8,174                                 | 8,905                     | oz.  |
| Voisey s Bay                 |          | \$ 7,229                                 |                           |      | \$ 3,506                                 |                           |      |
|                              | Nickel   |  | 22.7 million              | lbs. |  | 18.2 million              | lbs. |
|                              | Copper   |  | 16.0 million              | lbs. |  | 3.9 million               | lbs. |
| Peñasquito                   |          | \$ 5,826                                 |                           |      | \$ 3,006                                 |                           |      |
|                              | Gold     |  | 48,621                    | oz.  |  | 35,624                    | oz.  |
|                              | Silver   |  | 3.9 million               | oz.  |  | 3.2 million               | oz.  |
|                              | Lead     |  | 29.2 million              | lbs. |  | 21.9 million              | lbs. |
|                              | Zinc     |  | 67.4 million              | lbs. |  | 39.0 million              | lbs. |
| Cortez                       | Gold     | \$ 5,106                                 | 42,855                    | oz.  | \$ 2,487                                 | 33,134                    | oz.  |
| Robinson                     |          | \$ 3,687                                 |                           |      | \$ 3,128                                 |                           |      |
|                              | Gold     |  | 8,972                     | oz.  |  | 19,012                    | oz.  |
|                              | Copper   |  | 27.9 million              | lbs. |  | 28.5 million              | lbs. |
| Holt                         | Gold     | \$ 3,594                                 | 9,397                     | oz.  | N/A                                      | N/A                       |      |
| Leeville                     | Gold     | \$ 3,069                                 | 101,240                   | oz.  | \$ 2,635                                 | 122,834                   | oz.  |
| Mulatos                      | Gold     | \$ 2,399                                 | 29,476                    | oz.  | \$ 1,724                                 | 29,025                    | oz.  |
| Dolores                      |          | \$ 1,426                                 |                           |      | \$ 399                                   |                           |      |
|                              | Gold     |  | 15,945                    | oz.  |  | 8,479                     | oz.  |
|                              | Silver   |  | 693,531                   | oz.  |  | 160,254                   | oz.  |
| Las Cruces                   | Copper   | \$ 1,311                                 | 23.8 million              | lbs. | \$ 875                                   | 17.5 million              | lbs. |
| Canadian                     |          |  |                           |      |  |                           |      |
| Malartic                     | Gold     | \$ 1,309                                 | 60,826                    | oz.  | N/A                                      | N/A                       |      |
| Other(2)                     | Various  | \$ 12,670                                | N/A                       |      | \$ 19,404                                | N/A                       |      |
| <b>Total Royalty Revenue</b> |          | <b>\$ 64,465</b>                         |                           |      | <b>\$ 45,338</b>                         |                           |      |

(1) Reported production relates to the amount of metal sales, subject to our royalty interests, for the three months ended September 30, 2011 and 2010, as reported to us by the operators of the mines.

(2) Other includes all of the Company's non-principal producing royalties as of September 30, 2011. Individually, no royalty included within the Other category contributed greater than 5% of our total royalty revenue for either period, with the exception of Taparko during the quarter ended September 30, 2010, which totaled royalty revenue of approximately \$7.6 million.

The increase in royalty revenue for the quarter ended September 30, 2011, compared with the quarter ended September 30, 2010, resulted primarily from an increase in the average gold and other metal prices, increased production at Andacollo, Cortez, Dolores and Voisey s Bay, the continued ramp-up at Peñasquito, and the start of production at Holt and Canadian Malartic. Please refer to Recent Developments, Property Developments earlier within this MD&A for further discussion on any recent developments regarding properties covered by certain of our royalty interests.

General and administrative expenses increased to \$6.3 million for the quarter ended September 30, 2011, from \$5.0 million for the quarter ended September 30, 2010. The increase was primarily due to an increase in non-cash stock-based compensation expense of approximately \$0.9 million. The increase in non-cash stock-based compensation is due to the Company granting new non-cash stock-based compensation awards during the first fiscal quarter as compared to historical grants being made during our second fiscal quarter.

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Production taxes expense increased to \$2.2 million during the quarter ended September 30, 2011, from \$0.6 million for the quarter ended September 30, 2010. The increase was primarily due to an increase in the mining proceeds tax expense associated with our Voisey's Bay royalty, which was due to increased royalty revenue from the Voisey's Bay royalty during the period.

Depreciation, depletion and amortization decreased to \$17.2 million for the quarter ended September 30, 2011, from \$18.9 million for the quarter ended September 30, 2010. The decrease was primarily attributable to a decrease in depletion at Taparko (\$4.3 million) and Siguri (\$1.4 million), which was due to the dollar caps applicable to those royalties being met during our fiscal year 2011. These decreases were partially offset by an increase in depletion at Andacollo (\$1.6 million) and Voisey's Bay (\$1.2 million), which was due to increased production during the three months ended September 30, 2011.

During the quarter ended September 30, 2011, the Company incurred a restructuring charge of approximately \$1.3 million related to its royalty interest at Relief Canyon. The effect of the restructuring charge during the quarter ended September 30, 2011, was \$0.02 per basic share. Refer to Note 6 of our notes to consolidated financial statements for further discussion on the restructuring charge.

Interest and other income increased to \$2.8 million for the three months ended September 30, 2011, from \$1.4 million for the three months ended September 30, 2010. The increase was primarily due to an increase in gains on distributions of restricted gold inventory attributable to non-controlling interest holders of approximately \$2.1 million during the period. This increase was partially offset by a decrease in our interest income due to lower average cash balances when compared to the prior period.

During the quarter ended September 30, 2011, we recognized income tax expense totaling \$12.4 million compared with \$6.9 million during the quarter ended September 30, 2010. This resulted in an effective tax rate of 32.1% in the current period, compared with 34.8% in the quarter ended September 30, 2010. The decrease in the effective tax rate for September 30, 2011 is primarily related to (i) the decrease in tax expense from changes in estimates of uncertain tax positions, and (ii) the decrease in tax expense relating to the decrease in unrealized foreign exchange gains. For a complete discussion of the factors that influence our effective tax rate, refer to Note 13 to the notes to consolidated financial statements in the Company's Fiscal 2011 10-K.

**Liquidity and Capital Resources**

Overview

At September 30, 2011, we had current assets of \$184.5 million compared to current liabilities of \$36.0 million for a current ratio of 5 to 1. This compares to current assets of \$169.3 million and current liabilities of \$28.9 million at June 30, 2011, resulting in a current ratio of approximately 6 to 1.

During the quarter ended September 30, 2011, liquidity needs were met from \$64.5 million in royalty revenues and our available cash resources. As of September 30, 2011, the Company had \$70 million outstanding and \$155 million available under its \$225 million revolving credit facility. In addition, as of September 30, 2011, the Company had \$122.2 million outstanding under its term loan facility. Refer to Note 4 of our notes to

consolidated financial statements for further discussion on our debt.

We believe that our current financial resources and funds generated from operations will be adequate to cover anticipated expenditures for debt service (current and long-term), general and administrative expense costs, exploration costs and capital expenditures for the foreseeable future. Our current financial resources are also available to fund dividends and for royalty acquisitions, including the \$85 million commitment, of which \$71.3 million remains to be funded, as part of the Mt. Milligan gold stream acquisition. Our long-term capital requirements are primarily affected by our ongoing acquisition activities. The Company currently, and generally at any time, has acquisition opportunities in various stages of active review. In the event of a substantial royalty or other acquisition, we would seek additional debt or equity financing opportunities as necessary.

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Please refer to our risk factors included in Part 1, Item 1A of our Fiscal Year 2011 10-K for a discussion of certain risks that may impact the Company's liquidity and capital resources.

**Recently Issued Accounting Standards**

Please refer to Note 1 of the notes to consolidated financial statements for a discussion on recently issued accounting standards.

**Forward-Looking Statements**

Cautionary "Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: With the exception of historical matters, the matters discussed in this report are forward-looking statements that involve risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. Such forward-looking statements include statements regarding projected production estimates and estimates pertaining to timing and commencement of production from the operators of our royalty properties; the adequacy of financial resources and funds to cover anticipated expenditures for general and administrative expenses as well as costs associated with exploration and business development and capital expenditures, and our expectation that substantially all our revenues will be derived from royalty interests. Factors that could cause actual results to differ materially from these forward-looking statements include, among others:

- changes in gold and other metals prices on which our royalties and similar interests are paid or prices associated with the primary metals mined at properties where we hold interests;
  
- the production at or performance of properties where we hold interests;
  
- decisions and activities of the operators of properties where we hold interests;
  
- the ability of operators to bring projects into production and operate in accordance with feasibility studies;
  
- liquidity or other problems our operators may encounter;
  
- unanticipated grade and geological, metallurgical, processing or other problems at the properties where we hold interests;

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- mine operating and ore processing facility problems, pit wall or tailings dam failures, natural catastrophes such as floods or earthquakes and access to raw materials, water and power;
- changes in project parameters as plans of the operators are refined;
- changes in estimates of reserves and mineralization by the operators of properties where we hold interests;
- economic and market conditions;
- future financial needs;
- federal, state and foreign legislation governing us or the operators of properties where we hold interests;
- the availability of royalties and similar interests for acquisition or other acquisition opportunities and the availability of debt or equity financing necessary to complete such acquisitions;
- our ability to make accurate assumptions regarding the valuation, timing and amount of payments when making acquisitions;
- risks associated with conducting business in foreign countries, including application of foreign laws to contract and other disputes, environmental and permitting laws, community unrest and labor disputes, and enforcement and uncertain political and economic environments;



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- risks associated with issuances of substantial additional common stock or incurrence of substantial indebtedness in connection with acquisitions or otherwise;
- acquisition and maintenance of permits and authorizations, completion of construction and commencement and continuation of production at the properties where we hold interests;
- changes to management and key employees; and
- failure to complete future acquisitions;

as well as other factors described elsewhere in this report and our other reports filed with the SEC. Most of these factors are beyond our ability to predict or control. Future events and actual results could differ materially from those set forth in, contemplated by or underlying the forward-looking statements. We disclaim any obligation to update any forward-looking statements made herein. Readers are cautioned not to put undue reliance on forward-looking statements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our earnings and cash flow are significantly impacted by changes in the market price of gold, silver, copper, nickel and other metals. Gold, silver, copper, nickel and other metal prices can fluctuate significantly and are affected by numerous factors, such as demand, production levels, economic policies of central banks, producer hedging, world political and economic events, and the strength of the U.S. dollar relative to other currencies. Please see *Volatility in gold, silver, copper, nickel and other metal prices may have an adverse impact on the value of our royalty interests and reduce our royalty revenues. Certain of our royalty contracts have feature that may amplify the negative effects of a drop in commodity prices.* under Part I, Item 1A of our Fiscal 2011 10-K, for more information that can affect gold and other prices as well as historical gold, silver, nickel and copper prices.

During the three month period ended September 30, 2011, we reported royalty revenues of \$64.5 million, with an average gold price for the period of \$1,702 per ounce, an average copper price of \$4.07 per pound and an average nickel price of \$10.00 per pound. Approximately 70% of our total recognized revenues for the three months ended September 30, 2011, were attributable to gold sales from our gold producing royalty interests, as shown within the MD&A. For the three months ended September 30, 2011, if the price of gold had averaged 10% higher or lower per ounce, we would have recorded an increase or decrease in revenue of approximately \$4.7 million.

Approximately 11% of our total recognized revenues for the three months ended September 30, 2011, were attributable to copper sales from our copper producing royalty interests. For the three months ended September 30, 2011, if the price of copper had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenue of approximately \$0.8 million, respectively.

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Approximately 9% of our total recognized revenues for the three months ended September 30, 2011, were attributable to nickel sales from our nickel producing royalty interests. For the three months ended September 30, 2011, if the price of nickel had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenue of approximately \$0.9 million, respectively.

### **ITEM 4.**

### **CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

As of September 30, 2011, the Company's management, with the participation of the President and Chief Executive Officer and its Chief Financial Officer and Treasurer, carried out an evaluation of the effectiveness of the design and operation of the Company's

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disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). Based on such evaluation, the Company's President and Chief Executive Officer and its Chief Financial Officer and Treasurer have concluded that, as of September 30, 2011, the Company's disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the required time periods and that such information is accumulated and communicated to the Company's management, including the President and Chief Executive Officer and its Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure.

Disclosure controls and procedures involve human diligence and compliance and are subject to lapses in judgment and breakdowns resulting from human failures. As a result, a control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected.

**Changes in Internal Controls**

There has been no change in the Company's internal control over financial reporting during the three months ended September 30, 2011, that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*Voisey's Bay*

Refer to Note 11 of our notes to consolidated financial statements for a discussion on litigation associated with our Voisey's royalty. There was no material development to this litigation during the three months ended September 30, 2011.

**ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in Item 2 MD&A Forward-Looking Statements, and various risks faced by us are also discussed elsewhere in Item 2 MD&A of this Quarterly Report on Form 10-Q. In addition, risk factors are included in Part I, Item 1A of our Fiscal 2011 10-K.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

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**ITEM 4. REMOVED AND RESERVED**

**ITEM 5. OTHER INFORMATION**

Effective October 28, 2011, RG Exchangeco Inc., a wholly-owned subsidiary of the Company ( RG Exchangeco ), entered into an Amending Agreement (the Amendment ) with Seabridge Gold Inc. ( Seabridge ) to make certain clarifying and technical amendments to that certain Option Agreement by and between RG Exchangeco, as successor to RGLD Gold Canada, Inc., a wholly-owned subsidiary of the Company, and Seabridge, dated June 16, 2011 (the Option Agreement ). To expressly reflect the parties' original intention, the Amendment provides that Royal Gold's minimum holding period for Seabridge shares as set forth in the Option Agreement shall be deemed satisfied for purposes of the Option Agreement in the event that Royal Gold can no longer hold the Seabridge shares due to a corporate event at Seabridge, such as a change of control, merger, or similar transaction. The foregoing description of the terms of the Amendment is qualified in its entirety by the text of the Amendment, filed herewith as Exhibit 10.3.

**ITEM 6. EXHIBITS**

The exhibits to this report are listed in the Exhibit Index.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**ROYAL GOLD, INC.**

Date: November 3, 2011

By: */s/ Tony Jensen*  
Tony Jensen  
President and Chief Executive Officer

Date: November 3, 2011

By: */s/ Stefan Wenger*  
Stefan Wenger  
Chief Financial Officer and Treasurer



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**ROYAL GOLD, INC.**

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 3.1                       | Amended and Restated Bylaws, as amended August 17, 2011.   |
| 10.1*                     | Form of Performance Share Agreement under Royal Gold's 2004 Omnibus Long-Term Incentive Plan(1) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on August 24, 2011 and incorporated herein by reference). |
| 10.2*                     | Form of Performance Share Agreement under Royal Gold's 2004 Omnibus Long-Term Incentive Plan(2) (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on August 24, 2011 and incorporated herein by reference). |
| 10.3                      | Amending Agreement between Seabridge Gold Inc. and RG Exchangeco Inc. dated October 28, 2011.  |
| 31.1                      | Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2                      | Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 32.1                      | Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 32.2                      | Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.   |
| 101.INS**                 | XBRL Instance Document.  |
| 101.SCH**                 | XBRL Taxonomy Extension Schema Document.   |
| 101.CAL**                 | XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF**                 | XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB**                 | XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE**                 | XBRL Taxonomy Extension Presentation Linkbase Document.  |

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\* Identifies a management contract or compensation plan or arrangement.

\*\* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under those sections.