

ROYAL GOLD INC  
Form 10-Q  
January 31, 2013  
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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 December 31, 2012

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)

**84-0835164**  
(I.R.S. Employer  
Identification No.)

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

**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 (§232.405 of this chapter) 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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

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 64,366,725 shares of the Company's common stock, par value \$0.01 per share, outstanding as of January 23, 2013. In addition as of such date, there were 675,346 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 voting, 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)

|  | December 31,<br>2012 | June 30,<br>2012 |
|--|----------------------|------------------|
| <b>ASSETS</b>  |                      |                  |
| Cash and equivalents   | \$ 680,731           | \$ 375,456       |
| Royalty receivables  | 70,754               | 53,946           |
| Income tax receivable  | 7,204                | 11,046           |
| Prepaid expenses and other current assets  | 22,361               | 4,760            |
| Total current assets   | 781,050              | 445,208          |
| Royalty interests in mineral properties, net (Note 3)  | 2,063,604            | 1,890,988        |
| Available for sale securities (Note 4)   | 18,489               | 15,015           |
| Other assets   | 23,904               | 21,834           |
| Total assets   | \$ 2,887,047         | \$ 2,373,045     |
| <b>LIABILITIES</b>   |                      |                  |
| Accounts payable   | \$ 2,255             | \$ 2,615         |
| Dividends payable  | 13,010               | 8,947            |
| Other current liabilities  | 3,288                | 3,647            |
| Total current liabilities  | 18,553               | 15,209           |
| Debt (Note 5)  | 297,697              | 293,248          |
| Net deferred tax liabilities   | 175,875              | 178,716          |
| Uncertain tax positions  | 19,821               | 19,469           |
| Other long-term liabilities  | 2,353                | 2,974            |
| Total liabilities  | 514,299              | 509,616          |
| Commitments and contingencies (Note 12)  |                      |                  |
| <b>EQUITY</b>  |                      |                  |
| Preferred stock, \$.01 par value, 10,000,000 shares authorized; and 1 share issued   |                      |                  |
| Common stock, \$.01 par value, 100,000,000 shares authorized; and 64,162,252 and 58,614,221 shares outstanding, respectively | 642                  | 586              |
| Exchangeable shares, no par value, 1,806,649 shares issued, less 1,131,303 and 1,007,823 redeemed shares, respectively       | 29,722               | 35,156           |
| Additional paid-in capital   | 2,138,153            | 1,656,357        |
| Accumulated other comprehensive (loss) income  | (10,289)             | (13,763)         |
| Accumulated earnings   | 190,131              | 160,123          |
| Total Royal Gold stockholders' equity  | 2,348,359            | 1,838,459        |
| Non-controlling interests  | 24,389               | 24,970           |
| Total equity   | 2,372,748            | 1,863,429        |
| Total liabilities and equity   | \$ 2,887,047         | \$ 2,373,045     |

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



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## Consolidated Statements of Operations and Comprehensive Income

(Unaudited, in thousands except share data)

|  | Three Months Ended   |                      | Six Months Ended     |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | December 31,<br>2012 | December 31,<br>2011 | December 31,<br>2012 | December 31,<br>2011 |
| Royalty revenues   | \$ 79,870            | \$ 68,842            | \$ 157,732           | \$ 133,307           |
| Costs and expenses   |                      |                      |                      |                      |
| General and administrative   | 5,720                | 5,057                | 11,790               | 11,355               |
| Production taxes   | 2,197                | 2,946                | 4,676                | 5,097                |
| Depreciation, depletion and amortization                           | 21,120               | 21,419               | 42,620               | 38,639               |
| Restructuring on royalty interests in mineral properties           |                      |                      |                      | 1,328                |
| Total costs and expenses   | 29,037               | 29,422               | 59,086               | 56,419               |
| Operating income   | 50,833               | 39,420               | 98,646               | 76,888               |
| Interest and other income  | 29                   | 489                  | 139                  | 3,322                |
| Interest and other expense   | (6,988)              | (1,609)              | (13,157)             | (3,387)              |
| Income before income taxes   | 43,874               | 38,300               | 85,628               | 76,823               |
| Income tax expense   | (16,315)             | (14,051)             | (32,776)             | (26,433)             |
| Net income   | 27,559               | 24,249               | 52,852               | 50,390               |
| Net income attributable to non-controlling interests               | (342)                | (838)                | (865)                | (4,484)              |
| Net income attributable to Royal Gold stockholders                 | \$ 27,217            | \$ 23,411            | \$ 51,987            | \$ 45,906            |
| Net income   | \$ 27,559            | \$ 24,249            | \$ 52,852            | \$ 50,390            |
| Adjustments to comprehensive income, net of tax                    |                      |                      |                      |                      |
| Unrealized change in market value of available for sale securities | (1,572)              | (6,958)              | 3,474                | (12,262)             |
| Comprehensive income   | 25,987               | 17,291               | 56,326               | 38,128               |
| Comprehensive income attributable to non-controlling interests     | (342)                | (838)                | (865)                | (4,484)              |
| Comprehensive income attributable to Royal Gold stockholders       | \$ 25,645            | \$ 16,453            | \$ 55,461            | \$ 33,644            |
| Net income per share available to Royal Gold common stockholders:  |                      |                      |                      |                      |
| Basic earnings per share   | \$ 0.42              | \$ 0.42              | \$ 0.84              | \$ 0.83              |
| Basic weighted average shares outstanding                          | 63,941,686           | 55,329,463           | 61,688,776           | 55,259,009           |
| Diluted earnings per share   | \$ 0.42              | \$ 0.42              | \$ 0.84              | \$ 0.82              |
| Diluted weighted average shares outstanding                        | 64,137,237           | 55,574,814           | 61,905,549           | 55,533,248           |
| Cash dividends declared per common share                           | \$ 0.20              | \$ 0.15              | \$ 0.35              | \$ 0.26              |

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





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## Consolidated Statements of Cash Flows

(Unaudited, in thousands)

|   | Six Months Ended     |                      |
|---|----------------------|----------------------|
|   | December 31,<br>2012 | December 31,<br>2011 |
| Cash flows from operating activities:   |                      |                      |
| Net income  | \$ 52,852            | \$ 50,390            |
| Adjustments to reconcile net income to net cash provided by operating activities: |                      |                      |
| Depreciation, depletion and amortization  | 42,620               | 38,639               |
| Gain on distribution to non-controlling interest                                  | (88)                 | (3,284)              |
| Non-cash stock-based compensation expense   | 3,900                | 4,066                |
| Tax benefit of stock-based compensation exercises                                 | (1,214)              | (3,086)              |
| Restructuring on royalty interests in mineral properties                          |                      | 1,328                |
| Deferred tax benefit  | (2,166)              | (847)                |
| Amortization of debt discount   | 4,448                |                      |
| Changes in assets and liabilities:  |                      |                      |
| Royalty receivables   | (16,808)             | (15,693)             |
| Prepaid expenses and other assets   | (19,659)             | 1,385                |
| Accounts payable  | (661)                | (194)                |
| Income tax receivable   | 1,827                | 1,947                |
| Other liabilities   | (626)                | 785                  |
| Net cash provided by operating activities   | \$ 64,425            | \$ 75,436            |
| Cash flows from investing activities:   |                      |                      |
| Acquisition of royalty interests in mineral properties                            | (215,032)            | (148,182)            |
| Proceeds on sale of Inventory - restricted  | 118                  | 4,842                |
| Other   | (38)                 | (128)                |
| Net cash (used in) investing activities   | \$ (214,952)         | \$ (143,468)         |
| Cash flows from financing activities:   |                      |                      |
| Borrowing from credit facility  |                      | 100,000              |
| Repayment of debt   |                      | (37,800)             |
| Common stock dividends  | (17,915)             | (12,209)             |
| Distribution to non-controlling interests   | (1,273)              | (6,315)              |
| Proceeds from the issuance of common stock  | 473,776              | 2,917                |
| Tax benefit of stock-based compensation exercises                                 | 1,214                | 3,086                |
| Net cash provided by financing activities   | \$ 455,802           | \$ 49,679            |
| Net increase (decrease) in cash and equivalents                                   | 305,275              | (18,353)             |
| Cash and equivalents at beginning of period                                       | 375,456              | 114,155              |
| Cash and equivalents at end of period   | \$ 680,731           | \$ 95,802            |

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**

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, precious metals streams and similar interests. Royalties are non-operating interests in mining projects that provide the right to revenue or metals produced from the project after deducting specified costs, if any. We use the term royalty interest in these notes to the consolidated financial statements to refer to royalties, gold, silver or other metal stream interests, and other similar interests.

**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 and six months ended December 31, 2012, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2013. 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, 2012 filed with the Securities and Exchange Commission on August 9, 2012 (Fiscal 2012 10-K).

**Recently Adopted Accounting Standards**

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-05, *Presentation of Comprehensive Income* (ASU 2011-05). ASU 2011-05 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. The Company has elected the single continuous statement of comprehensive income. Pursuant to ASU No. 2011-12, *Comprehensive Income (Topic 220) Deferral of the Effective Date for Amendments to the Presentation of Reclassification of Items Out of Accumulated Other Comprehensive Income in Accounting for Standards Update No. 2011-05*, the provisions of ASU 2011-05 became effective for the Company's fiscal year beginning July 1, 2012. Since ASU 2011-05 addresses financial presentation only, its adoption did not impact the Company's consolidated financial position or results of operations.

**2. ACQUISITIONS**

**Mt. Milligan III Gold Stream Acquisition**

On August 8, 2012, Royal Gold entered into an amendment to its purchase and sale agreement with Thompson Creek Metals Company Inc. ( Thompson Creek ) whereby Royal Gold, among other things, agreed to purchase an additional 12.25% of the payable gold from the Mt. Milligan copper-gold project in exchange for a total of \$200 million, of which \$75 million was paid shortly after closing, and, when

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**ROYAL GOLD, INC.**

Notes to Consolidated Financial Statements

(Unaudited)

production is reached, cash payments for each payable ounce of gold delivered to Royal Gold, as discussed further below (the Milligan III Acquisition). Thompson Creek intends to use the proceeds from the Milligan III Acquisition to finance a portion of the construction of the Mt. Milligan project and related costs. Under the Milligan III Acquisition, Royal Gold increased its aggregate pre-production commitment in the Mt. Milligan project from \$581.5 million to \$781.5 million and agreed to purchase a total of 52.25% of the payable ounces of gold produced from the Mt. Milligan project at a cash purchase price equal to the lesser of \$435, with no inflation adjustment, or the prevailing market price for each payable ounce of gold (regardless of the number of payable ounces delivered to Royal Gold).

As of December 31, 2012, the Company has paid \$669.6 million of the aggregate pre-production commitment of \$781.5 million. The remaining scheduled quarterly payments include \$62 million due March 1, 2013, \$37 million due June 1, 2013 and \$12.9 million due September 1, 2013. Royal Gold's obligation to make these quarterly payments is subject to the satisfaction of certain conditions included in the Milligan III Acquisition (including that the aggregate amount of historical payments made by Royal Gold plus the applicable quarterly payment is less than the aggregate costs of developing the Mt. Milligan project incurred or accrued by Thompson Creek as of the date of the applicable quarterly payment). In the event that a quarterly payment is postponed as a result of the failure by Thompson Creek to satisfy a condition precedent, all subsequent quarterly payments will be adjusted forward one full calendar quarter until such time as all conditions precedent have been satisfied for the next scheduled quarterly payment.

The Milligan III Acquisition has been accounted for as an asset acquisition. The \$75 million paid on August 15, 2012, and the scheduled payments of \$45 million and \$95 million paid on September 3, 2012, and December 3, 2012, respectively, plus direct transaction costs, have been recorded as a development stage royalty interest within *Royalty interests in mineral properties, net* on our consolidated balance sheets.

**Acquisition of an Additional Royalty Option on the Kerr-Sulphurets-Mitchell Project**

On December 13, 2012, Royal Gold purchased 1,004,491 common shares (the Additional Seabridge Shares) of Seabridge Gold Inc. (Seabridge) at a 15% premium to the volume weighted-average trading price of Seabridge common shares on the Toronto Stock Exchange for a five day trading period that ended December 11, 2012, for \$18.3 million (C\$18.0 million). Effective December 13, 2012, Royal Gold entered into an amendment (the Seabridge Amendment) to its option agreement with Seabridge (the Seabridge Option Agreement) to, among other things, remove the 270 day minimum holding period applicable to the Additional Seabridge Shares.

Upon Royal Gold's purchase of the Additional Seabridge Shares, Royal Gold obtained the right, under the Seabridge Option Agreement, as amended by the Seabridge Amendment, to increase the net smelter return (NSR) royalty it may acquire on all of the gold and silver production from Seabridge's Kerr-Sulphurets-Mitchell project (KSM project) in British Columbia by 0.75%. Royal Gold now holds the right to purchase either a 1.25% NSR royalty on such production for C\$100 million, or a 2.0% NSR royalty for C\$160 million. If Royal Gold exercises its purchase right, the purchase price will be payable in three equal installments over the 540-day period following exercise. Royal Gold sold the Additional Seabridge Shares in a private transaction to an unrelated party for \$14.6 million (C\$14.4 million) on December 13, 2012.

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The 15% premium on the Additional Seabridge Shares, which represents the value of the option to acquire the additional 0.75% NSR royalty on the KSM project, plus direct acquisition costs, was approximately \$2.4 million and has been recorded within *Other assets* on our consolidated balance sheets. The purchase and same day sale of the Additional Seabridge Shares resulted in a realized loss on trading

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## Notes to Consolidated Financial Statements

(Unaudited)

securities of approximately \$1.3 million, which is recorded within *Interest and other expense* on our consolidated statements of operations and comprehensive income.

**3. ROYALTY INTERESTS IN MINERAL PROPERTIES**

The following summarizes the Company's royalty interests in mineral properties as of December 31, 2012 and June 30, 2012.

| <b>As of December 31, 2012</b><br>(Amounts in thousands): | <b>Cost</b>         | <b>Accumulated<br/>Depletion</b> | <b>Net</b>          |
|---|---------------------|----------------------------------|---------------------|
| <b>Production stage royalty interests:</b>                |                     |                                  |                     |
| Andacollo   | \$ 272,998          | \$ (35,950)                      | \$ 237,048          |
| Voisey's Bay  | 150,138             | (42,669)                         | 107,469             |
| Peñasquito  | 99,172              | (10,975)                         | 88,197              |
| Las Cruces  | 57,230              | (9,453)                          | 47,777              |
| Mulatos   | 48,092              | (21,490)                         | 26,602              |
| Wolverine   | 45,158              | (4,335)                          | 40,823              |
| Dolores   | 44,878              | (7,003)                          | 37,875              |
| Canadian Malartic   | 38,800              | (4,905)                          | 33,895              |
| Gwalia Deeps  | 31,070              | (5,628)                          | 25,442              |
| Holt  | 25,428              | (4,699)                          | 20,729              |
| Inata   | 24,871              | (8,015)                          | 16,856              |
| Leeville  | 18,322              | (15,262)                         | 3,060               |
| Robinson  | 17,825              | (10,570)                         | 7,255               |
| Cortez  | 10,630              | (9,697)                          | 933                 |
| Other   | 210,242             | (118,447)                        | 91,795              |
|   | <b>1,094,854</b>    | <b>(309,098)</b>                 | <b>785,756</b>      |
| <b>Development stage royalty interests:</b>               |                     |                                  |                     |
| Mt. Milligan  | 671,090             |                                  | 671,090             |
| Pascua-Lama   | 372,105             |                                  | 372,105             |
| Other   | 38,694              |                                  | 38,694              |
|   | <b>1,081,889</b>    |                                  | <b>1,081,889</b>    |
| <b>Exploration stage royalty interests</b>                | <b>195,959</b>      |                                  | <b>195,959</b>      |
| <b>Total royalty interests in mineral properties</b>      | <b>\$ 2,372,702</b> | <b>\$ (309,098)</b>              | <b>\$ 2,063,604</b> |

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## Notes to Consolidated Financial Statements

(Unaudited)

| <b>As of June 30, 2012</b><br>(Amounts in thousands): | <b>Cost</b>  | <b>Restructuring</b> | <b>Accumulated<br/>Depletion</b> | <b>Net</b>   |
|---|--------------|----------------------|----------------------------------|--------------|
| <b>Production stage royalty interests:</b>            |              |                      |                                  |              |
| Andacollo   | \$ 272,998   | \$                   | \$ (27,345)                      | \$ 245,653   |
| Voisey's Bay  | 150,138      |                      | (33,192)                         | 116,946      |
| Peñasquito  | 99,172       |                      | (9,075)                          | 90,097       |
| Las Cruces  | 57,230       |                      | (6,499)                          | 50,731       |
| Mulatos   | 48,092       |                      | (18,721)                         | 29,371       |
| Wolverine   | 45,158       |                      | (1,625)                          | 43,533       |
| Dolores   | 44,878       |                      | (6,021)                          | 38,857       |
| Canadian Malartic                                     | 38,800       |                      | (3,292)                          | 35,508       |
| Gwalia Deeps  | 28,119       |                      | (4,398)                          | 23,721       |
| Holt  | 25,428       |                      | (2,980)                          | 22,448       |
| Inata   | 24,871       |                      | (7,320)                          | 17,551       |
| Leeville  | 18,322       |                      | (14,436)                         | 3,886        |
| Robinson  | 17,825       |                      | (9,872)                          | 7,953        |
| Cortez  | 10,630       |                      | (9,673)                          | 957          |
| Other   | 208,463      |                      | (112,105)                        | 96,358       |
|   | 1,090,124    |                      | (266,554)                        | 823,570      |
| <b>Development stage royalty interests:</b>           |              |                      |                                  |              |
| Mt. Milligan  | 455,943      |                      |                                  | 455,943      |
| Pascua-Lama   | 372,105      |                      |                                  | 372,105      |
| Other   | 40,022       | (1,328)              |                                  | 38,694       |
|   | 868,070      | (1,328)              |                                  | 866,742      |
| Exploration stage royalty interests                   | 200,676      |                      |                                  | 200,676      |
| Total royalty interests in mineral properties         | \$ 2,158,870 | \$ (1,328)           | \$ (266,554)                     | \$ 1,890,988 |

**4. AVAILABLE FOR SALE SECURITIES**

The Company's available for sale securities as of December 31, 2012 and June 30, 2012 consists of the following (amounts in thousands):

|                      | <b>As of December 31, 2012</b> |             |             |                   |
|----------------------|--------------------------------|-------------|-------------|-------------------|
|                      | <b>Cost Basis</b>              | <b>Gain</b> | <b>Loss</b> | <b>Fair Value</b> |
| <b>Non-current:</b>  |                                |             |             |                   |
| Seabridge Gold, Inc. | \$ 28,574                      |             | (10,245)    | \$ 18,329         |
| Other                | 203                            |             | (43)        | 160               |
|                      | \$ 28,777                      | \$          | \$ (10,288) | \$ 18,489         |

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As of June 30, 2012

Unrealized

|                      | Cost Basis | Gain | Loss        | Fair Value |
|----------------------|------------|------|-------------|------------|
| Non-current:         |            |      |             |            |
| Seabridge Gold, Inc. | \$ 28,574  |      | (13,716)    | \$ 14,858  |
| Other                | 203        |      | (46)        | \$ 157     |
|                      | \$ 28,777  | \$   | \$ (13,762) | \$ 15,015  |



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## Notes to Consolidated Financial Statements

(Unaudited)

The Company's policy for determining whether declines in fair value of available-for-sale securities are other than temporary includes a quarterly analysis of the investments and a review by management of all investments for which the cost exceeds the fair value. Any temporary declines in fair value are recorded as a charge to other comprehensive income. If such impairment is determined by the Company to be other than temporary, the investment's cost basis is written down to fair value and recorded in net income during the period the Company determines such impairment to be other than temporary. Based on the Company's analysis of its investments and our ability and intent to hold these investments for a reasonable period of time, there were no write downs on our available-for-sale securities during the three or six months ended December 31, 2012 or the fiscal year ended June 30, 2012. The most significant available-for-sale security is the investment in Seabridge common stock, acquired in June 2011 and discussed in greater detail within our Fiscal 2012 10-K. The Company will continue to evaluate this investment considering additional facts and circumstances as they arise, including, but not limited to, the progress of development of Seabridge's KSM project.

**5. DEBT**

The Company's non-current debt as of December 31, 2012 and June 30, 2012 consists of the following:

|                                 | As of<br>December 31, 2012<br>Non-current | As of<br>June 30, 2012<br>Non-current |
|---------------------------------|---|---------------------------------------|
|                                 | (Amounts in thousands)                    |                                       |
| Convertible notes due 2019, net | \$ 297,697                                | \$ 293,248                            |
| Total debt                      | \$ 297,697                                | \$ 293,248                            |

*Convertible Senior Notes Due 2019*

In June 2012, the Company completed an offering of \$370 million aggregate principal amount of 2.875% convertible senior notes due 2019 (2019 Notes). The 2019 Notes bear interest at the rate of 2.875% per annum, and the Company is required to make semi-annual interest payments on the outstanding principal balance of the 2019 Notes on June 15 and December 15 of each year, beginning December 15, 2012. The 2019 Notes mature on June 15, 2019. Interest expense recognized on the 2019 Notes for the three and six months ended December 31, 2012, was \$5.2 million and \$10.3 million, respectively, and included the contractual coupon interest, the accretion of the debt discount and amortization of the debt issuance costs.

*Revolving credit facility*

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The Company maintains a \$350 million revolving credit facility. As of December 31, 2012, the Company had no amounts outstanding under the revolving credit facility. As discussed in the Company's Fiscal 2012 10-K, the Company has financial covenants associated with its revolving credit facility. At December 31, 2012, the Company was in compliance with each financial covenant.

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## Notes to Consolidated Financial Statements

(Unaudited)

**6. STOCKHOLDERS EQUITY***Common Stock Offering*

On October 15, 2012, we sold 5,250,000 shares of our common stock, at a price of \$90.00 per share, resulting in proceeds of \$472.5 million before expenses. The Company has invested the proceeds from this offering in United States treasury bills or cash bank accounts and intends to use the net proceeds from the offering for the acquisition of additional royalty interests and for general corporate purposes.

**7. STOCK-BASED COMPENSATION**

The Company recognized stock-based compensation expense as follows:

|  | Three Months Ended     |                      | Six Months Ended       |                      |
|--|------------------------|----------------------|------------------------|----------------------|
|  | December 31,<br>2012   | December 31,<br>2011 | December 31,<br>2012   | December 31,<br>2011 |
|  | (Amounts in thousands) |                      | (Amounts in thousands) |                      |
| Stock options                          | \$ 129                 | \$ 123               | \$ 256                 | \$ 238               |
| Stock appreciation rights              | 427                    | 329                  | 819                    | 624                  |
| Restricted stock                       | 649                    | 565                  | 1,779                  | 1,651                |
| Performance stock                      | 600                    | 851                  | 1,046                  | 1,553                |
| Total stock-based compensation expense | \$ 1,805               | \$ 1,868             | \$ 3,900               | \$ 4,066             |

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

There were no stock options granted during the three months ended December 31, 2012 and 2011, and 17,925 and 18,796 stock options granted during the six months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was \$0.7 million of unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.0 years.

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There were no stock-settled stock appreciation rights ( SSARs ) granted during the three months ended December 31, 2012 and 2011, and 54,400 and 42,804 SSARs granted during the six months ended December 31, 2012 and 2011, respectively. As of December 31, 2012, there was \$2.0 million of unrecognized compensation expense related to non-vested SSARs, which is expected to be recognized over a weighted-average period of 1.8 years.

There were no shares of restricted stock granted during the three months ended December 31, 2012 and 2011, and 40,850 and 44,950 shares of restricted stock granted during the six months ended December 31, 2012 and 2011, respectively. The restricted stock awards granted to officers and certain employees during the six months ended December 31, 2012, vest over a three year period beginning after a two-year holding period from the date of grant, with one-third of the shares vesting after years three, four and five, respectively. As of December 31, 2012, there was \$6.4 million of unrecognized compensation expense related to non-vested restricted stock, which is expected to be recognized over a weighted-average vesting period of 3.6 years.

There were no shares of performance stock granted during the three months ended December 31, 2012 and 2011, and 45,600 and 49,600 shares of performance stock granted during the six months ended

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## Notes to Consolidated Financial Statements

(Unaudited)

December 31, 2012 and 2011, respectively. As of December 31, 2012, there was \$4.3 million of unrecognized compensation expense related to non-vested performance stock, which is expected to be recognized over a weighted-average vesting period of 1.8 years.

**8. 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 SSARs 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:

|  | Three Months Ended  |   | Six Months Ended  |   |
|--|---|---|---|---|
|  | December 31,<br>2012<br>(in thousands, except share data) | December 31,<br>2011<br>(in thousands, except share data) | December 31,<br>2012<br>(in thousands, except share data) | December 31,<br>2011<br>(in thousands, except share data) |
| Net income available to Royal Gold common stockholders | \$ 27,217   | \$ 23,411   | \$ 51,987   | \$ 45,906   |
| Weighted-average shares for basic EPS                  | 63,941,686  | 55,329,463  | 61,688,776  | 55,259,009  |
| Effect of other dilutive securities                    | 195,551   | 245,351   | 216,773   | 274,239   |
| Weighted-average shares for diluted EPS                | 64,137,237  | 55,574,814  | 61,905,549  | 55,533,248  |
| Basic earnings per share                               | \$ 0.42   | \$ 0.42   | \$ 0.84   | \$ 0.83   |
| Diluted earnings per share                             | \$ 0.42   | \$ 0.42   | \$ 0.84   | \$ 0.82   |

The 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. The Company intends to settle the principal amount of the 2019 Notes in cash. As a result, there will be no impact to diluted earnings per share unless the share price of the Company's common stock exceeds the conversion price of \$105.31.

**9. INCOME TAXES**

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|                    | Three Months Ended                  |                      | Six Months Ended                    |                      |
|--------------------|-------------------------------------|----------------------|-------------------------------------|----------------------|
|                    | December 31,<br>2012                | December 31,<br>2011 | December 31,<br>2012                | December 31,<br>2011 |
|                    | (Amounts in thousands, except rate) |                      | (Amounts in thousands, except rate) |                      |
| Income tax expense | \$ 16,315                           | \$ 14,051            | \$ 32,776                           | \$ 26,433            |
| Effective tax rate | 37.2%                               | 36.7%                | 38.3%                               | 34.4%                |

The increase in the effective tax rate for the three months ended December 31, 2012, is primarily related to an increase in current year tax expense from changes in estimates of uncertain tax positions. The

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increase in the effective tax rate for the six months ended December 31, 2012, is primarily attributable to (i) an increase in tax expense recognized in certain foreign subsidiaries without a corresponding U.S. foreign tax credit benefit, (ii) an increase in current year tax expense from changes in estimates of uncertain tax positions, and (iii) the prior year decrease in tax expense from changes in estimates of uncertain tax positions.

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 2008.

As of December 31, 2012 and June 30, 2012, the Company had \$19.8 million and \$19.5 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. 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 December 31, 2012 and June 30, 2012, the amount of accrued income-tax-related interest and penalties was \$3.3 million and \$2.8 million, respectively.

During the quarter ended December 31, 2012, the Company made a foreign withholding tax payment of approximately \$17.2 million. The Company expects to recover the amount of the payment within the next twelve months. The \$17.2 million payment has been recorded within *Prepaid expenses and other current assets* on our consolidated balance sheets.

**10. SEGMENT INFORMATION**

The Company manages its business under a single operating segment, consisting of the acquisition and management of royalty interests. 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**

**Royalty Interests in  
Mineral Property, net**

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|               | Three Months Ended<br>December 31, |      | Six Months Ended<br>December 31, |      | As of<br>December 31, |      | As of<br>June 30, |      |
|---------------|------------------------------------|------|----------------------------------|------|-----------------------|------|-------------------|------|
|               | 2012                               | 2011 | 2012                             | 2011 | 2012                  | 2012 | 2012              | 2012 |
| Chile         | 30%                                | 25%  | 28%                              | 26%  | 31%                   | 35%  |                   |      |
| Canada        | 23%                                | 28%  | 23%                              | 24%  | 49%                   | 43%  |                   |      |
| United States | 19%                                | 16%  | 18%                              | 20%  | 4%                    | 5%   |                   |      |
| Mexico        | 18%                                | 19%  | 20%                              | 18%  | 8%                    | 9%   |                   |      |
| Australia     | 3%                                 | 5%   | 3%                               | 5%   | 3%                    | 3%   |                   |      |
| Africa        | 3%                                 | 4%   | 3%                               | 4%   | 1%                    | 1%   |                   |      |
| Other         | 4%                                 | 3%   | 5%                               | 3%   | 4%                    | 4%   |                   |      |



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(Unaudited)

**11. FAIR VALUE MEASUREMENTS**

FASB Accounting Standards Codification (ASC) 820, *Fair Value Measurements and Disclosures* ( 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 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

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.

|                                    | Carrying<br>Amount | Total      | At December 31, 2012 |         |         |
|------------------------------------|--------------------|------------|----------------------|---------|---------|
|                                    |                    |            | Fair Value           |         |         |
|                                    |                    |            | Level 1              | Level 2 | Level 3 |
| <b>Assets (In thousands):</b>      |                    |            |                      |         |         |
| United States treasury bills(1)    | \$ 524,982         | \$ 524,982 | \$ 524,982           | \$      | \$      |
| Money market investments(1)        | \$ 183             | \$ 183     | \$ 183               | \$      | \$      |
| Marketable equity securities(2)    | \$ 18,489          | \$ 18,489  | \$ 18,489            | \$      | \$      |
| Total assets                       |                    | \$ 543,654 | \$ 543,654           | \$      | \$      |
| <b>Liabilities (In thousands):</b> |                    |            |                      |         |         |
| Debt(3)                            | \$ 370,000         | \$ 411,625 | \$ 411,625           | \$      | \$      |
| Total liabilities                  |                    | \$ 411,625 | \$ 411,625           | \$      | \$      |

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

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- (2) Included in *Available for sale securities* in the Company's consolidated balance sheets.
- (3) Included in the carrying amount is the equity component of our 2019 Notes in the amount of \$77 million, which is included within *Additional paid-in capital* in the Company's consolidated balance sheets.

The Company invests primarily in United States treasury bills with maturities of 90 days or less, which are classified within Level 1 of the fair value hierarchy. The Company also 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 also 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. The Company's debt classified within Level 1 of the fair value hierarchy is valued using quoted prices in an active market.

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As of December 31, 2012, 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 six months ended December 31, 2012. If recognition of these assets at their fair value becomes necessary, such measurements will be determined utilizing Level 3 inputs.

**12. COMMITMENTS AND CONTINGENCIES**

*Mt. Milligan Gold Stream Acquisition*

Refer to Note 2 for discussion on the Company's commitment to Thompson Creek as part of the Mt. Milligan gold stream acquisitions.

*Tulsequah Chief Gold and Silver Stream Acquisition*

As of December 31, 2012, the Company has a remaining commitment of \$50 million as part of its Tulsequah Chief gold and silver stream acquisition in December 2011.

*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, now known as Vale Canada Limited (Vale Canada) and its wholly-owned subsidiaries, Vale Inco Atlantic Sales Limited and VNL, related to the calculation of the NSR on the sale of concentrates, including nickel concentrates, from the Voisey's Bay mine to Vale Canada. The claim asserts

that Vale Canada 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.

**13. 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 on production of minerals from a portion of Cortez. Denver Mining Finance Company, 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.

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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 12,837 and 12,581 ounces of gold as of December 31, 2012 and June 30, 2012, 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 \$7.9 million and \$7.4 million as of December 31, 2012 and June 30, 2012, respectively, while the fair value of such ounces was approximately \$21.3 million and \$20.1 million as of December 31, 2012 and June 30, 2012, respectively. None of the gold currently held in inventory as of December 31, 2012 and June 30, 2012, is attributed to Royal Gold, as the gold allocated to Royal Gold's CVP partnership interest is typically sold within five days of receipt.

**14. SUBSEQUENT EVENT**

On January 21, 2013, Royal Gold entered into Amendment No. 2 to Fifth Amended and Restated Revolving Credit Agreement (the Amendment), which amends the Company's existing Fifth Amended and Restated Revolving Credit Agreement, dated May 30, 2012 (as amended from time to time, the Revolving Credit Agreement), among Royal Gold, as the borrower, certain subsidiaries of Royal Gold, as guarantors, HSBC Bank USA, National Association, as administrative agent and a lender, The Bank of Nova Scotia, as a lender, Goldman Sachs Bank USA, as a lender, and the other lenders from time to time party thereto, HSBC Securities (USA) Inc., as the sole lead arranger and joint bookrunner, and ScotiaBank, as syndication agent and joint bookrunner.

The Amendment revises the Revolving Credit Agreement to, among other things, (i) remove the current ratio, interest coverage ratio and debt service coverage ratio financial covenants, (ii) add a financial covenant requiring the Company to maintain a secured debt ratio below a certain level, (iii) increase the amount of unsecured indebtedness the Company is permitted to incur subject to its pro forma compliance with a leverage ratio test and to allow certain prepayments, refinancing and replacement of such unsecured indebtedness, (iv) increase the interest rate for borrowings under the Revolving Credit Agreement when the leverage ratio exceeds 3.0 to 1.0, and (v) take certain acquisitions into account in determining compliance with financial covenants. Except as set forth in the Amendment, all other terms and conditions of the Revolving Credit Agreement remain in full force and effect.

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

**General**

This 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. Royal Gold, Inc. ( Royal Gold , the Company , we , us , or our ), recommends 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, 2012 filed with the Securities and Exchange Commission (the SEC ) on August 9, 2012 (the Fiscal 2012 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, stream and other types of royalty interests throughout this MD&A. These terms are defined in our Fiscal 2012 10-K.

**Overview**

Royal Gold, together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties, precious metals streams and similar interests. Royalties are non-operating interests in mining projects that provide the right to revenue or metals produced from the project after deducting specified costs, if any. We use the term royalty interest in this Quarterly Report on Form 10-Q to refer to royalties, gold, silver or other metal stream interests, and other similar interests. We seek to acquire existing royalty interests or to finance projects that are in production or in development stage in exchange for royalty interests. We are engaged in a continual review of opportunities to acquire existing royalty interests, to create new royalty interests through the financing of mine development or exploration, or to acquire companies that hold royalty interests. 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 negotiations and involvement as a bidder in competitive processes.

As of December 31, 2012, the Company owned royalty interests on 39 producing properties, 28 development stage properties and 138 exploration stage properties, of which the Company considers 41 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, exploration costs, environmental costs or mining, processing or other operating costs on the properties in which we hold royalty interests. During the three months ended December 31, 2012, we focused on the management of our existing royalty interests and the acquisition of royalty interests.

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Our financial results are primarily tied to the price of gold and, to a lesser extent, the price of silver, copper and nickel, together with the amounts of production from our producing stage royalty interests. The prices of gold, silver, copper, nickel and other metals have fluctuated widely in recent years. The marketability and the price of metals are influenced by numerous factors beyond the control of the Company and declines in the price of gold, silver, copper or nickel could have a material and adverse effect on the Company's results of operations and financial condition.

For the three and six months ended December 31, 2012 and 2011, 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 |                               |                   |                               | Six months ended  |                               |                   |                               |
|-------------------|--------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|
|                   | December 31, 2012  |                               | December 31, 2011 |                               | December 31, 2012 |                               | December 31, 2011 |                               |
|                   | Average Price      | Percentage of Royalty Revenue | Average Price     | Percentage of Royalty Revenue | Average Price     | Percentage of Royalty Revenue | Average Price     | Percentage of Royalty Revenue |
| Gold (\$/ounce)   | \$ 1,722           | 73%                           | \$ 1,688          | 66%                           | \$ 1,686          | 70%                           | \$ 1,695          | 68%                           |
| Silver (\$/ounce) | \$ 32.68           | 6%                            | \$ 31.87          | 6%                            | \$ 31.24          | 7%                            | \$ 35.39          | 6%                            |
| Copper (\$/pound) | \$ 3.59            | 12%                           | \$ 3.40           | 15%                           | \$ 3.54           | 13%                           | \$ 3.74           | 13%                           |
| Nickel (\$/pound) | \$ 7.70            | 6%                            | \$ 8.30           | 9%                            | \$ 7.55           | 7%                            | \$ 9.16           | 9%                            |
| Other             | N/A                | 3%                            | N/A               | 4%                            | N/A               | 3%                            | N/A               | 4%                            |

**Recent Developments***Acquisition of an Additional Royalty Option on the Kerr-Sulphurets-Mitchell Project*

On December 13, 2012, Royal Gold purchased 1,004,491 common shares (the Additional Seabridge Shares) of Seabridge Gold Inc. (Seabridge) at a 15% premium to the volume weighted-average trading price of Seabridge common shares on the Toronto Stock Exchange for a five day trading period that ended December 11, 2012, for \$18.3 million (C\$18.0 million). Effective December 13, 2012, Royal Gold entered into an amendment (the Seabridge Amendment) to its option agreement with Seabridge (the Seabridge Option Agreement) to, among other things, remove the 270 day minimum holding period applicable to the Additional Seabridge Shares.

Upon Royal Gold's purchase of the Additional Seabridge Shares, Royal Gold obtained the right, under the Seabridge Option Agreement, as amended by the Seabridge Amendment, to increase the net smelter return (NSR) royalty it may acquire on all of the gold and silver production from Seabridge's Kerr-Sulphurets-Mitchell project (KSM project) in British Columbia by 0.75%. Royal Gold now holds the right to purchase either a 1.25% NSR royalty on such production for C\$100 million, or a 2.0% NSR royalty for C\$160 million. If Royal Gold exercises its purchase right, the purchase price will be payable in three equal installments over the 540-day period following exercise. Royal Gold sold the Additional Seabridge Shares in a private transaction to an unrelated party for \$14.6 million (C\$14.4 million) on December 13, 2012.

The 15% premium on the Additional Seabridge Shares, which represents the value of the option to acquire the additional 0.75% NSR royalty on the KSM project, plus direct acquisition costs, was approximately \$2.4 million and has been recorded within *Other assets* on our consolidated balance sheets. The purchase and same day sale of the Additional Seabridge Shares resulted in a realized loss on trading securities of approximately \$1.3 million, which is recorded within *Interest and other expense* on our consolidated statements of operations and comprehensive income.

*Common Stock Offering*

On October 15, 2012, we sold 5,250,000 shares of our common stock, at a price of \$90.00 per share, resulting in proceeds of \$472.5 million before expenses. The Company has invested the proceeds from this offering in United States treasury bills or cash bank accounts and intends to use the net proceeds from the offering for the acquisition of additional royalty interests and for general corporate purposes.



**Principal Royalty Interests**

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 royalty interests in our portfolio are principal to our business. Estimated future potential 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

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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 royalty interests are no longer principal to our business.

Please refer to our Fiscal 2012 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(1)      | 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                 | Pan American Silver Corp. ( Pan American )        | 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(2)        | 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                       | KGHM International Ltd. ( KGHM )                  | 3.0% NSR (copper, gold, silver, molybdenum)  |
| Voisey's Bay      | Newfoundland and Labrador, Canada | Vale Newfoundland & Labrador Limited ( Vale )     | 2.7% NSR (nickel, copper, cobalt)  |
| Wolverine         | Yukon Territory, Canada           | Yukon Zinc Corporation ( Yukon Zinc )             | 0.00% to 9.45% sliding-scale NSR (gold and silver)   |

(1) There have been approximately 132,000 cumulative payable ounces produced as of December 31, 2012.

(2) The Mulatos royalty is capped at 2.0 million gold ounces of production. Approximately 1.0 million cumulative ounces of gold have been produced as of December 31, 2012.

*Development Properties*

**Royalty or similar interests**

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| Mine         | Location                    | Operator   | (Gold unless otherwise stated)  |
|--------------|-----------------------------|--|---|
| Mt. Milligan | British Columbia,<br>Canada | Thompson Creek Metals Inc.<br>( Thompson Creek ) | 52.25% of the payable gold  |
| Pascua-Lama  | Region III, Chile           | Barrick  | 0.78% to 5.23% sliding-scale NSR<br>1.05% fixed rate royalty (copper) |

**Operators Production Estimates by Royalty Interest for Calendar 2012**

We received annual production estimates from many of the operators of our producing mines during the first calendar quarter of 2012. The following table shows such production estimates for our principal producing properties for calendar 2012 as well as the actual production reported to us by the various operators through December 31, 2012. 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

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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 Interest for Calendar 2012 and Reported Production

Principal Producing Properties

For the period January 1, 2012 through December 31, 2012

| Royalty         | Calendar 2012 Operator s Production Estimate(1) |                 |                     | Reported Production through December 31, 2012(2) |              |                    |
|-----------------|---|-----------------|---------------------|--|--------------|--------------------|
|                 | Gold (oz.)                                      | Silver (oz.)    | Base Metals (lbs.)  | Gold (oz.)                                       | Silver (oz.) | Base Metals (lbs.) |
| Andacollo       | 60,000  |                 |                     | 59,034   |              |                    |
| Canadian        |   |                 |                     |  |              |                    |
| Malartic        | 565,000   |                 |                     | 370,592  |              |                    |
| Cortez GSR1     | 94,000  |                 |                     | 93,670   |              |                    |
| Cortez GSR2     | 12,000  |                 |                     | 520  |              |                    |
| Cortez GSR3     | 106,000   |                 |                     | 94,190   |              |                    |
| Cortez NVR1     | 83,000  |                 |                     | 68,495   |              |                    |
| Dolores(3)      | 75,000-80,000                                   | 3.5-4.5 million |                     | 52,815   | 3.1 million  |                    |
| Holt            | 45,000-50,000                                   |                 |                     | 48,254   |              |                    |
| Las Cruces      |   |                 | 136.0-151.2 million |  |              | 151.8 million      |
| Leeville        | 254,000   |                 |                     | 238,652  |              |                    |
| Mulatos         | 200,000-220,000                                 |                 |                     | 200,190  |              |                    |
| Peñasquito      | 370,000-390,000                                 | 23-24 million   |                     | 400,326  | 24.6 million |                    |
| Robinson(4)     | N/A   |                 | 155-160 million     | 35,539   |              | 159.9 million      |
| Voisey s Bay(4) |   |                 | 310-325 million     |  |              | 336.9 million      |
| Wolverine(4)    | N/A   | N/A             |                     | 5,637  | 1.9 million  |                    |

(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 2012 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, 2012 through December 31, 2012, as reported to us by the operators of the mines.

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(3) In March 2012, Pan American acquired Minefinders Corporation Ltd. ( Minefinders ). The production estimate shown was provided by Minefinders. Pan American announced production guidance of 49,000 to 53,000 ounces of gold and 2.75 to 3.0 million ounces of silver for the period April 1 through December 31, 2012.

(4) The Company did not receive calendar 2012 production guidance from the operator.

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**Property Developments**

The following information is provided by the operators of the property, either to Royal Gold or in various documents made publicly available. Reported production, as used below, relates to the amount of metal sales, subject to our royalty interests, as reported to us by the operators of the mines.

*Andacollo*

Reported production at Andacollo increased approximately 38% during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011. Increased production during the quarter ended December 31, 2012, was primarily due to increased mill throughput as a result of the recently installed crushing circuit and the mining of higher grade ore.

*Canadian Malartic*

Reported production at Canadian Malartic increased approximately 78% during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011, as the operations at Canadian Malartic continue to ramp-up. Prior to a six day shutdown to complete installation and integration of the second pebble crusher and to make modifications to various conveying systems in the crushing and grinding circuit, production for October through November 2012 averaged over 49,000 tonnes per operating day, a 13% increase from the preceding quarter. In November 2012, the mill ran at throughput rates of over 50,000 tonnes per day for 10 days with a new one day record of 58,476 tonnes. Also during the fourth quarter of calendar 2012, mine production was affected by delayed access to the north sector of the pit thus limiting production. The delays affected the mine sequencing and will have an impact on early calendar 2013 production. With mill throughput expected to stabilize, Osisko estimates calendar 2013 gold production to be between 485,000 and 510,000 ounces.

*Cortez*

Reported production at Cortez decreased approximately 23% during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011, as Barrick continues to prioritize production from their higher grade Cortez Hills operation that is not covered by our royalty interest. The Company expects production to remain at these lower levels until Barrick returns to steady state mining at the Pipeline Complex.

*Dolores*

Pan American announced production guidance of 3.25 to 3.45 million ounces of silver and 63,500 to 68,000 ounces of gold, which Pan American anticipates will be supported by capital projects that include construction of the first phase of leach pad 3, significant pre-stripping and

the systematic rehabilitation of the mining fleet.

*Las Cruces*

Reported production at Las Cruces increased approximately 36% during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011. Inmet announced its calendar 2013 production guidance for Las Cruces of between 68,500 to 72,000 tonnes of copper.

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*Mt. Milligan*

Thompson Creek reported that as of September 30, 2012, overall construction progress on the Mt. Milligan project was estimated at 75%. Milestones achieved through the third quarter of 2012 included the completion of the tailings storage facility core construction, enclosure of the concentrator building, and the installation and assembly of the SAG and Ball Mills, which remain in progress and on schedule. Thompson Creek also reported that the overall project remains on schedule, with commencement of commercial production expected in the fourth quarter of calendar 2013.

*Mulatos*

Reported production at Mulatos increased approximately 42% during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011. Alamos reported that the increase in reported production was primarily due to the addition of a gravity mill that was commissioned in March 2012 and record crusher throughput levels averaging 17,900 tonnes per day during the quarter ended December 31, 2012. Alamos also announced that it estimates calendar 2013 production of between 180,000 and 200,000 ounces of gold at Mulatos.

*Pascua-Lama*

Barrick reported that construction management has been transferred to Fluor and that the project team has been significantly strengthened. As disclosed with its third quarter 2012 financial results, Barrick indicated it expected initial gold production in the second half of calendar 2014 and that the definitive estimate of costs and schedule for the project would be complete by the time of its 2012 year-end results in February 2013.

*Peñasquito*

Reported production for all metals at Peñasquito increased during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011, as operations at Peñasquito continue to ramp-up. During the quarter ended December 31, 2012, mill throughput of 98,000 tonnes per day was constrained by the availability of water. Goldcorp has stated that a water and tailings study to develop a comprehensive long-term water strategy for the Peñasquito district is underway and expected to be completed during the first half of calendar 2013. Goldcorp will continue to bring additional water wells into production within the Cedros Basin in addition to new dewatering wells within the Chile Colorado pit. The additional water wells in calendar 2013 are expected to increase mill throughput to 105,000 tonnes per day. Mining in a lower grade portion of the pit over the first half of calendar 2013 is also expected to impact overall production, which is forecasted between 360,000 and 400,000 gold ounces for calendar 2013 with an associated silver production of between 20 and 21 million ounces.

*Voisey's Bay*



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Reported copper production at Voisey's Bay decreased significantly during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011, due to a decrease in copper concentrate shipments. Variability in Vale's shipping schedule will continue to be reflected in uneven metal sales quarter over quarter. Vale reported that the Long Harbour hydrometallurgical facility is estimated to start-up in the second half of calendar 2013.

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*Wolverine*

Reported production at Wolverine increased during the quarter ended December 31, 2012, when compared to the quarter ended December 31, 2011, as Yukon Zinc increased throughput and improved metallurgical performance of the mill.

**Results of Operations**

*Quarter Ended December 31, 2012, Compared to Quarter Ended December 31, 2011*

For the quarter ended December 31, 2012, we recorded net income attributable to Royal Gold stockholders of \$27.2 million, or \$0.42 per basic and diluted share, as compared to net income attributable to Royal Gold stockholders of \$23.4 million, or \$0.42 per basic and diluted share, for the quarter ended December 31, 2011. The increase in our net income attributable to Royal Gold stockholders was principally attributable to an increase in royalty revenue, as discussed further below. This increase was partially offset primarily by an increase in interest expense during the period, which is also discussed further below. Our earnings per share did not increase in connection with the increase in net income attributable to Royal Gold stockholders due to the issuance of an aggregate of 9.25 million shares of common stock in two registered offerings during calendar 2012.

For the quarter ended December 31, 2012, we recognized total royalty revenue of \$79.9 million, at an average gold price of \$1,722 per ounce, an average silver price of \$32.68 per ounce, an average nickel price of \$7.70 per pound and an average copper price of \$3.59 per pound, compared to royalty revenue of \$68.8 million, at an average gold price of \$1,688 per ounce, an average silver price of \$31.87 per ounce, an average nickel price of \$8.30 per pound and an average copper price of \$3.40 per pound for the quarter ended December 31, 2011. Royalty revenue and the corresponding production, attributable to our royalty interests, for the quarter ended December 31, 2012 compared to the quarter ended December 31, 2011 is as follows:

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Royalty Revenue and Production Subject to Our Royalty Interests

Quarter Ended December 31, 2012 and 2011

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

| Royalty                      | Metal(s) | Three Months Ended<br>December 31, 2012 |                           | Three Months Ended<br>December 31, 2011 |                           |
|------------------------------|----------|---|---------------------------|---|---------------------------|
|                              |          | Royalty<br>Revenue                      | Reported<br>Production(1) | Royalty<br>Revenue                      | Reported<br>Production(1) |
| Andacollo                    | Gold     | \$ 23,128                               | 18,015 oz.                | \$ 16,180                               | 13,070 oz.                |
| Voisey s Bay                 |          | \$ 7,413                                |                           | \$ 12,044                               |                           |
|                              | Nickel   |   | 28.8 million lbs.         |   | 27.4 million lbs.         |
|                              | Copper   |   | 31.2 million lbs.         |   | 78.6 million lbs.         |
| Peñasquito                   | Gold     | \$ 6,612                                |                           | \$ 6,307                                |                           |
|                              | Silver   |   | 91,017 oz.                |   | 67,827 oz.                |
|                              | Lead     |   | 4.6 million oz.           |   | 5.0 million oz.           |
|                              | Zinc     |   | 23.7 million lbs.         |   | 40.2 million lbs.         |
|                              |          |   | 73.6 million lbs.         |   | 78.4 million lbs.         |
| Holt                         | Gold     | \$ 5,807                                | 15,076 oz.                | \$ 4,234                                | 11,461 oz.                |
| Mulatos                      | Gold     | \$ 5,250                                | 61,311 oz.                | \$ 3,571                                | 43,223 oz.                |
| Robinson                     | Gold     | \$ 4,668                                | 11,603 oz.                | \$ 1,947                                | 7,193 oz.                 |
|                              | Copper   |   | 41.1 million lbs.         |   | 21.1 million lbs.         |
| Canadian Malartic            | Gold     | \$ 2,511                                | 96,276 oz.                | \$ 1,534                                | 54,141 oz.                |
| Leeville                     | Gold     | \$ 2,154                                | 69,754 oz.                | \$ 3,101                                | 102,946 oz.               |
| Cortez                       | Gold     | \$ 2,059                                | 18,232 oz.                | \$ 2,657                                | 23,609 oz.                |
|                              |          |   |                           |   | 28.1 million lbs.         |
| Las Cruces                   | Copper   | \$ 2,031                                | 38.3 million lbs.         | \$ 1,477                                | lbs.                      |
| Wolverine                    | Gold     | \$ 1,982                                | 3,203 oz.                 | \$ 832                                  | 294 oz.                   |
|                              | Silver   |   | 742,874 oz.               |   | 366,922 oz.               |
| Dolores                      | Gold     | \$ 1,383                                | 14,976 oz.                | \$ 1,669                                | 20,663 oz.                |
|                              | Silver   |   | 854,739 oz.               |   | 887,007 oz.               |
| Other(2)                     | Various  | \$ 14,872                               | N/A                       | \$ 13,289                               | N/A                       |
| <b>Total Royalty Revenue</b> |          | <b>\$ 79,870</b>                        |                           | <b>\$ 68,842</b>                        |                           |

(1) Reported production relates to the amount of metal sales, subject to our royalty interests, for the three months ended December 31, 2012 and 2011, as reported to us by the operators of the mines.

(2) Other includes all of the Company's non-principal producing royalty interests. Individually, no royalty interest included within the Other category contributed greater than 5% of our total royalty revenue for either period.

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The increase in royalty revenue for the quarter ended December 31, 2012, compared with the quarter ended December 31, 2011, resulted primarily from an increase in the average gold, silver and copper prices, production increases at Mulatos and Robinson, and the continued ramp-up at Andacollo, Peñasquito, Las Cruces, Holt, Canadian Malartic and Wolverine. These increases were partially offset by decreases in production at Voisey's Bay (copper) and Leeville. Please refer to 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 \$5.7 million for the quarter ended December 31, 2012, from \$5.1 million for the quarter ended December 31, 2011. The increase was primarily due to an increase in fees associated with tax consulting, tax preparation and general consulting services during the period.

Production taxes decreased to \$2.2 million for the quarter ended December 31, 2012, from \$2.9 million for the quarter ended December 31, 2011. The decrease was primarily due to a decrease in the mining

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proceeds tax expense associated with our Voisey's Bay royalty, which was due to decreased royalty revenue from the Voisey's Bay royalty during the period.

Interest and other expense increased to \$7.0 million for the quarter ended December 31, 2012, from \$1.6 million for the quarter ended December 31, 2011. The increase was primarily attributable to interest expense associated with our Convertible Senior Notes 2019 ( 2019 Notes ) issued in June 2012. Interest expense recognized on the 2019 Notes for the three months ended December 31, 2012, was \$5.2 million and included the contractual coupon interest (\$2.6 million), the accretion of the debt discount (\$2.3 million) and amortization of the debt issuance costs (\$0.3 million).

During the quarter ended December 31, 2012, we recognized income tax expense totaling \$16.3 million compared with \$14.1 million during the quarter ended December 31, 2011. This resulted in an effective tax rate of 37.2% in the current period, compared with 36.7% in the quarter ended December 31, 2011. The increase in the effective tax rate for the three months ended December 31, 2012, is primarily related to an increase in current year tax expense from changes in estimates of uncertain tax positions. 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 2012 10-K

*Six Months Ended December 31, 2012, Compared to Six Months Ended December 31, 2011*

For the six months ended December 31, 2012, we recorded net income attributable to Royal Gold stockholders of \$52.0 million, or \$0.84 per basic and diluted share, as compared to net income attributable to Royal Gold stockholders of \$45.9 million, or \$0.83 per basic share and \$0.82 per diluted share, for the six months ended December 31, 2011. The increase in our earnings per share was primarily attributable to an increase in royalty revenue during the period, which is discussed below. The increase in our earnings per share was partially offset due to an increase in interest expense associated with our 2019 Notes and the issuance of an aggregate of 9.25 million shares of common stock in two registered offerings during calendar 2012.

For the six months ended December 31, 2012, we recognized total royalty revenue of \$157.7 million, at an average gold price of \$1,686 per ounce, an average silver price of \$31.24 per ounce, an average nickel price of \$7.55 per pound and an average copper price of \$3.54 per pound, compared to royalty revenue of \$133.3 million, at an average gold price of \$1,695 per ounce, an average silver price of \$35.39 per ounce, an average nickel price of \$9.16 per pound and an average copper price of \$3.74 per pound for the six months ended December 31, 2011. Royalty revenue and the corresponding production, attributable to our royalty interests, for the six months ended December 31, 2012 compared to the six months ended December 31, 2011 is as follows:

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Royalty Revenue and Production Subject to Our Royalty Interests

Six Months Ended December 31, 2012 and 2011

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

| Royalty                      | Metal(s) | Six Months Ended<br>December 31, 2012 |                           | Six Months Ended<br>December 31, 2011 |                           |
|------------------------------|----------|---------------------------------------|---------------------------|---------------------------------------|---------------------------|
|                              |          | Royalty<br>Revenue                    | Reported<br>Production(1) | Royalty<br>Revenue                    | Reported<br>Production(1) |
| Andacollo                    | Gold     | \$ 42,831                             | 33,953 oz.                | \$ 33,019                             | 26,356 oz.                |
| Peñasquito                   |          | \$ 17,763                             |                           | \$ 12,133                             |                           |
|                              | Gold     |                                       | 222,256 oz.               |                                       | 116,448 oz.               |
|                              | Silver   |                                       | 12.0 million oz.          |                                       | 8.9 million oz.           |
|                              | Lead     |                                       | 65.3 million lbs.         |                                       | 69.4 million lbs.         |
|                              | Zinc     |                                       | 170.1 million lbs.        |                                       | 145.8 million lbs.        |
| Voisey's Bay                 |          | \$ 16,609                             |                           | \$ 19,273                             |                           |
|                              | Nickel   |                                       | 62.7 million lbs.         |                                       | 50.1 million lbs.         |
|                              | Copper   |                                       | 74.9 million lbs.         |                                       | 94.6 million lbs.         |
| Holt                         | Gold     | \$ 10,368                             | 27,946 oz.                | \$ 7,828                              | 20,858 oz.                |
| Mulatos                      | Gold     | \$ 8,746                              | 103,621 oz.               | \$ 5,969                              | 72,699 oz.                |
| Robinson                     |          | \$ 8,422                              |                           | \$ 5,634                              |                           |
|                              | Gold     |                                       | 20,675 oz.                |                                       | 16,165 oz.                |
|                              | Copper   |                                       | 78.0 million lbs.         |                                       | 49.0 million lbs.         |
| Cortez                       | Gold     | \$ 4,840                              | 43,983 oz.                | \$ 7,763                              | 66,465 oz.                |
| Canadian Malartic            | Gold     | \$ 4,652                              | 188,013 oz.               | \$ 2,844                              | 114,967 oz.               |
| Las Cruces                   | Copper   | \$ 4,493                              | 84.5 million lbs.         | \$ 2,788                              | 51.9 million lbs.         |
| Leeville                     | Gold     | \$ 4,220                              | 137,779 oz.               | \$ 6,170                              | 204,186 oz.               |
| Wolverine                    |          | \$ 3,268                              |                           | \$ 832                                |                           |
|                              | Gold     |                                       | 4,403 oz.                 |                                       | - oz.                     |
|                              | Silver   |                                       | 1.2 million oz.           |                                       | 384,687 oz.               |
| Dolores                      |          | \$ 2,524                              |                           | \$ 3,094                              |                           |
|                              | Gold     |                                       | 28,220 oz.                |                                       | 36,608 oz.                |
|                              | Silver   |                                       | 1.6 million oz.           |                                       | 1.6 million oz.           |
| Other(2)                     | Various  | \$ 28,996                             | N/A                       | \$ 25,960                             | N/A                       |
| <b>Total Royalty Revenue</b> |          | <b>\$ 157,732</b>                     |                           | <b>\$ 133,307</b>                     |                           |

(1) Reported production relates to the amount of metal sales, subject to our royalty interests, for the six months ended December 31, 2012 and December 31, 2011, as reported to us by the operators of the mines.

(2) Other includes all of the Company's non-principal producing royalty interests. Individually, no royalty interest included within the Other category contributed greater than 5% of our total royalty revenue for either period.

The increase in royalty revenue for the six months ended December 31, 2012, compared with the six months ended December 31, 2011, resulted primarily from production increases at Mulatos and Robinson and the continued ramp-up at Andacollo, Peñasquito, Las Cruces, Holt, Canadian Malartic and Wolverine. These increases were partially offset by a decrease in the average gold, silver, copper and nickel prices and decreases in production at Voisey's Bay (copper), Cortez and Leeville. Please refer to Recent Developments, Property Developments earlier within this

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MD&A for a further discussion on recent developments regarding properties covered by certain of our royalty interests.

Depreciation, depletion and amortization increased to \$42.6 million for the six months ended December 31, 2012, from \$38.6 million for the six months ended December 31, 2011. The increase was primarily attributable to the continued ramp-up at Andacollo, Peñasquito, Holt, and Las Cruces, which resulted in additional depletion expense of approximately \$2.9 million during the period. The increase was also attributable to production increases at Mulatos and Robinson, which resulted in additional depletion expense of approximately \$1.0 million during the period.

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Interest and other income decreased to \$0.1 million for the six months ended December 31, 2012, from \$3.3 million for the six months ended December 31, 2011. The decrease was primarily due to a decrease in gains on distributions of restricted gold inventory attributable to non-controlling interest holders of approximately \$3.2 million during the period.

Interest and other expense increased to \$13.2 million for the six months ended December 31, 2012, from \$3.4 million for the six months ended December 31, 2011. The increase was primarily attributable to interest expense associated with our 2019 Notes issued in June 2012. Interest expense recognized on the 2019 Notes for the six months ended December 31, 2012, was \$10.3 million and included the contractual coupon interest (\$5.3 million), the accretion of the debt discount (\$4.4 million) and amortization of the debt issuance costs (\$0.6 million).

During the six months ended December 31, 2012, we recognized income tax expense totaling \$32.8 million compared with \$26.4 million during the six months ended December 31, 2011. This resulted in an effective tax rate of 38.3% in the current period, compared with 34.4% during the six months ended December 31, 2011. The increase in the effective tax rate for the six months ended December 31, 2012 is primarily related to (i) an increase in tax expense recognized in certain foreign subsidiaries without a corresponding U.S. foreign tax credit benefit, (ii) an increase in current year tax expense from changes in estimates of uncertain positions, and (iii) the prior year decrease in tax expense from changes in estimates of uncertain tax positions. 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 2012 10-K.

## **Liquidity and Capital Resources**

### *Overview*

At December 31, 2012, we had current assets of \$781.1 million compared to current liabilities of \$18.6 million for a current ratio of 42 to 1. This compares to current assets of \$445.2 million and current liabilities of \$15.2 million at June 30, 2012, resulting in a current ratio of approximately 29 to 1. The increase in our current ratio and total current assets when compared to June 30, 2012, was primarily attributable to an increase in our cash and equivalents during the period due to our recent common stock offering as discussed below.

During the quarter ended December 31, 2012, liquidity needs were met from \$79.9 million in royalty revenues and our available cash resources. As of December 31, 2012, the Company had \$350 million available and no amounts outstanding under its revolving credit facility. The Company was in compliance with each financial covenant under its revolving credit facility as of December 31, 2012. Refer to Note 5 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, 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 acquisitions of royalty interests, including the remaining commitments incurred in connection with the Mt. Milligan and Tulsequah Chief acquisitions. 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 one or more substantial royalty interest or other acquisitions, we would seek additional debt or equity financing opportunities as necessary.



Please refer to our risk factors included in Part 1, Item 1A of our Fiscal 2012 10-K for a discussion of certain risks that may impact the Company's liquidity and capital resources.

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*Recent Liquidity and Capital Resource Developments*

Amendment to Revolving Credit Agreement

On January 21, 2013, Royal Gold entered into Amendment No. 2 to Fifth Amended and Restated Revolving Credit Agreement (the Amendment ), which amends the Company's existing Fifth Amended and Restated Revolving Credit Agreement, dated May 30, 2012 (as amended from time to time, the Revolving Credit Agreement ), among Royal Gold, as the borrower, certain subsidiaries of Royal Gold, as guarantors, HSBC Bank USA, National Association, as administrative agent and a lender, The Bank of Nova Scotia, as a lender, Goldman Sachs Bank USA, as a lender, and the other lenders from time to time party thereto, HSBC Securities (USA) Inc., as the sole lead arranger and joint bookrunner, and ScotiaBank, as syndication agent and joint bookrunner.

The Amendment revises the Revolving Credit Agreement to, among other things, (i) remove the current ratio, interest coverage ratio and debt service coverage ratio financial covenants, (ii) add a financial covenant requiring the Company to maintain a secured debt ratio below a certain level, (iii) increase the amount of unsecured indebtedness the Company is permitted to incur subject to its pro forma compliance with a leverage ratio test and to allow certain prepayments, refinancing and replacement of such unsecured indebtedness, (iv) increase the interest rate for borrowings under the Revolving Credit Agreement when the leverage ratio exceeds 3.0 to 1.0, and (v) take certain acquisitions into account in determining compliance with financial covenants. Except as set forth in the Amendment, all other terms and conditions of the Revolving Credit Agreement remain in full force and effect.

Dividend Increase

On November 14, 2012, we announced an increase in our annual dividend for calendar 2013 from \$0.60 to \$0.80, payable on a quarterly basis of \$0.20 per share. The newly declared dividend is 33% higher than the dividend paid during calendar 2012. The first quarter calendar 2013 dividend of \$0.20 per share was paid on January 18, 2013, to shareholders of record at the close of business on January 4, 2013. The quarterly dividend of US\$0.20 is also payable to holders of exchangeable shares of RG Exchangeco.

Common Stock Offering

On October 15, 2012, we sold 5,250,000 shares of our common stock, at a price of \$90.00 per share, resulting in proceeds of \$472.5 million before expenses. The Company has invested the proceeds from this offering in United States treasury bills or cash bank accounts and intends to use the net proceeds from the offering for the acquisition of additional royalty interests and for general corporate purposes.

*Summary of Cash Flows*

Operating Activities

Net cash provided by operating activities totaled \$64.4 million for the six months ended December 31, 2012, compared to \$75.4 million for the six months ended December 31, 2011. The decrease was primarily due to an increase in tax payments of approximately \$22.7 million (\$17.2 million of prepaid withholding taxes and \$5.5 million of income taxes), a net payment of approximately \$3.7 million for an additional royalty option on the KSM project, and an increase in interest payments made of approximately \$2.5 million. These payment increases were partially offset by an increase in proceeds received from our royalty interests, net of production taxes, of approximately \$20.0 million.

Investing Activities

Net cash used in investing activities totaled \$215.0 million for the six months ended December 31, 2012, compared to cash used in investing activities of \$143.5 million for the six months ended December 31,

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2011. The increase in cash used in investing activities is primarily due to an increase in acquisitions of royalty interests in mineral properties (or Mt. Milligan funding) compared to the same period of the prior year.

Financing Activities

Net cash provided by financing activities totaled \$455.8 million for the six months ended December 31, 2012, compared to cash provided by financing activities of \$49.7 million for the six months ended December 31, 2011. The increase in cash provided by financing activities is primarily due to the sale of 5,250,000 shares of our common stock, resulting in proceeds of \$472.5 million, during the current period. The increase is also attributable to a reduction in debt payments resulting from the Company having no amounts outstanding under its revolving credit facility during the six months ended December 31, 2012.

**Recently Adopted Accounting Standards**

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

**Critical Accounting Policies**

*Available-for-Sale Securities*

The Company's policy for determining whether declines in fair value of available-for-sale securities are other than temporary includes a quarterly analysis of the investments and a review by management of all investments for which the cost exceeds the fair value. Any temporary declines in fair value are recorded as a charge to other comprehensive income. If such impairment is determined by the Company to be other than temporary, the investment's cost basis is written down to fair value and recorded in net income during the period the Company determines such impairment to be other than temporary. Based on the Company's analysis of its investments and our ability and intent to hold these investments for a reasonable period of time, there were no write downs on our available-for-sale securities during the three and six months ended December 31, 2012. The most significant available-for-sale security is the investment in Seabridge common stock, acquired in June 2011 and discussed in greater detail within our Fiscal 2012 10-K. The Company will continue to evaluate this investment considering additional facts and circumstances as they arise, including, but not limited to, the progress of development of Seabridge's KSM project.

**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 Quarterly Report on Form 10-Q 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

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projected production estimates and estimates pertaining to timing and commencement of production from the operators of properties where we hold royalty interests; 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. Words such as may, could, should, would, believe, estimate, expect, anticipate, potential, intend, continue, project and variations of these words, comparable words and similar expressions generally indicate forward-looking statements, which speak only as of the date the statement is made. Do not unduly rely on forward-looking statements. Actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause actual results to differ materially from these forward-looking statements include, among others:

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- changes in gold and other metals prices on which our royalty interests are paid or changes in prices of the primary metals mined at properties where we hold royalty interests;
- the production at or performance of properties where we hold royalty interests;
- the ability of operators to bring projects, particularly on development stage properties, into production on schedule or operate in accordance with feasibility studies;
- decisions and activities of the operators of properties where we hold royalty interests;
- liquidity or other problems our operators may encounter;
- hazards and risks at the properties where we hold royalty interests that are normally associated with developing and mining properties, including unanticipated grade and geological, metallurgical, processing or other problems, mine operating and ore processing facility problems, pit wall or tailings dam failures, industrial accidents, environmental hazards and natural catastrophes such as floods or earthquakes and access to raw materials, water and power;
- changes in project parameters as plans of the operators of properties where we hold royalty interests are refined;
- changes in estimates of reserves and mineralization by the operators of properties where we hold royalty interests;
- contests to our royalty interests and title and other defects to the properties where we hold royalty interests;
- economic and market conditions;
- future financial needs;

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- federal, state and foreign legislation governing us or the operators of properties where we hold royalty interests;
- the availability of royalty 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 revenue to be derived from our royalty interests when evaluating acquisitions;
- risks associated with conducting business in foreign countries, including application of foreign laws to contract and other disputes, environmental, real estate, contract and permitting laws, currency fluctuations, expropriation of property, repatriation of earnings, taxation, price controls, inflation, import and export regulations, community unrest and labor disputes, endemic health issues, corruption, enforcement and uncertain political and economic environments;
- changes in laws governing us, the properties where we hold royalty interests or the operators of such properties;
- risks associated with issuances of additional common stock or incurrence of indebtedness in connection with acquisitions or otherwise including risks associated with the issuance and conversion of convertible notes;
- acquisition and maintenance of permits and authorizations, completion of construction and commencement and continuation of production at the properties where we hold royalty interests;
- changes in management and key employees; and
- failure to complete future acquisitions;

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as well as other factors described elsewhere in this Quarterly Report on Form 10-Q, our Fiscal 2012 10-K 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, except as required by law. 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 flows are significantly impacted by changes in the market price of gold and, to a lesser extent, the price of silver, copper and nickel. 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 may reduce our royalty revenues. Certain of our royalty contracts have features that may amplify the negative effects of a drop in metals prices,* under Part I, Item 1A of our Fiscal 2012 10-K, for more information that can affect gold, silver, copper, nickel and other metal prices as well as historical gold, silver, copper and nickel prices.

During the six month period ended December 31, 2012, we reported royalty revenues of \$79.9 million, with an average gold price for the period of \$1,686 per ounce, an average silver price of \$31.24 per ounce, an average copper price of \$3.54 per pound and an average nickel price of \$7.55 per pound. Approximately 70% of our total recognized revenues for the six months ended December 31, 2012 were attributable to gold sales from our gold producing royalty interests, as shown within the MD&A. For the six months ended December 31, 2012, 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 \$11.9 million and \$11.7 million, respectively.

Approximately 13% of our total recognized revenues for the six months ended December 31, 2012 were attributable to copper sales from our copper producing royalty interests. For the six months ended December 31, 2012, 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 \$2.3 million.

Approximately 7% of our total recognized revenues for the six months ended December 31, 2012 were attributable to silver sales from our silver producing royalty interests. For the six months ended December 31, 2012, if the price of silver had averaged 10% higher or lower per ounce, we would have recorded an increase or decrease in revenues of approximately \$1.3 million.

Approximately 7% of our total recognized revenues for the six months ended December 31, 2012 were attributable to nickel sales from our nickel producing royalty interests. For the six months ended December 31, 2012, 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 \$1.5 million.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**



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As of December 31, 2012, the Company's management, with the participation of the President and Chief Executive Officer (the principal executive officer) and Chief Financial Officer and Treasurer (the

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principal financial and accounting officer) of the Company, carried out an evaluation of the effectiveness of the design and operation of the Company's 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 the Chief Financial Officer and Treasurer have concluded that, as of December 31, 2012, 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 the 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 December 31, 2012, 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 12 of our notes to consolidated financial statements for a discussion on litigation associated with our Voisey's Bay royalty. There was no material development to this litigation during the three months ended December 31, 2012.

**ITEM 1A. RISK FACTORS**

Information regarding risk factors appears in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations Forward-Looking Statements, and various risks faced by us are also discussed elsewhere in Item 2 Management's Discussion and Analysis of

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Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q. In addition, risk factors are included in Part I, Item 1A of our Fiscal 2012 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. MINE SAFETY DISCLOSURE**

Not applicable.

**ITEM 5. OTHER INFORMATION**

Not applicable.

**ITEM 6. EXHIBITS**

The exhibits to this Quarterly Report on Form 10-Q 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: January 31, 2013

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

Date: January 31, 2013

By: */s/ Stefan Wenger*  
Stefan Wenger  
Chief Financial Officer and Treasurer  
(Principal Financial and Accounting Officer)



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**ROYAL GOLD, INC.**

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 10.1                      | Intercreditor Agreement by and among RGLD Gold AG, Terrane Metals Corp. and Valiant Trust Company dated as of November 27, 2012.                                       |
| 10.2                      | Second Amending Agreement by and between RG Exchangeco Inc. and Seabridge Gold Inc. dated as of December 13, 2012.   |
| 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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\* 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.