

ROYAL GOLD INC  
Form 10-Q  
November 07, 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 September 30, 2013

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 definition 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

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There were 64,444,239 shares of the Company's common stock, par value \$0.01 per share, outstanding as of October 31, 2013. In addition as of such date, there were 667,155 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)

	September 30, 2013	June 30, 2013
<b>ASSETS</b>		
Cash and equivalents	\$ 637,899	\$ 664,035
Royalty receivables	48,191	50,385
Income tax receivable	24,137	15,158
Prepaid expenses and other current assets	5,173	14,919
Total current assets	715,400	744,497
Royalty and stream interests, net (Note 3)	2,145,929	2,120,268
Available-for-sale securities (Note 4)	10,826	9,695
Other assets	30,338	30,881
Total assets	\$ 2,902,493	\$ 2,905,341
<b>LIABILITIES</b>		
Accounts payable	2,254	2,838
Dividends payable	13,022	13,009
Foreign withholding taxes payable	7,262	15,518
Other current liabilities	5,509	3,720
Total current liabilities	28,047	35,085
Debt (Note 5)	304,604	302,263
Deferred tax liabilities	171,422	174,267
Uncertain tax positions (Note 8)	21,906	21,166
Other long-term liabilities	1,578	1,924
Total liabilities	527,557	534,705
Commitments and contingencies (Note 11)		
<b>EQUITY</b>		
Preferred stock, \$.01 par value, authorized 10,000,000 shares authorized; and 0 shares issued		
Common stock, \$.01 par value, 100,000,000 shares authorized; and 64,200,607 and 64,184,036 shares outstanding, respectively	642	642
Exchangeable shares, no par value, 1,806,649 shares issued, less 1,139,494 and 1,139,420 redeemed shares, respectively	29,361	29,365
Additional paid-in capital	2,143,761	2,142,173
Accumulated other comprehensive loss	(3,441)	(4,572)
Accumulated earnings	183,453	181,279
Total Royal Gold stockholders' equity	2,353,776	2,348,887
Non-controlling interests	21,160	21,749
Total equity	2,374,936	2,370,636
Total liabilities and equity	\$ 2,902,493	\$ 2,905,341

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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)

	<b>For The Three Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
Revenue	\$ 56,487	\$ 77,862
Costs and expenses		
General and administrative	6,566	6,238
Production taxes	1,783	2,478
Depreciation, depletion and amortization	22,400	21,500
Total costs and expenses	30,749	30,216
Operating income	25,738	47,646
Interest and other income	152	110
Interest and other expense	(5,767)	(6,001)
Income before income taxes	20,123	41,755
Income tax expense	(4,842)	(16,461)
Net income	15,281	25,294
Net income attributable to non-controlling interests	(86)	(523)
Net income attributable to Royal Gold common stockholders	\$ 15,195	\$ 24,771
Net income	\$ 15,281	\$ 25,294
Adjustments to comprehensive income, net of tax		
Unrealized change in market value of available-for-sale securities	1,131	5,046
Comprehensive income	16,412	30,340
Comprehensive income attributable to non-controlling interests	(86)	(523)
Comprehensive income attributable to Royal Gold stockholders	\$ 16,326	\$ 29,817
Net income per share available to Royal Gold common stockholders:		
Basic earnings per share	\$ 0.23	\$ 0.42
Basic weighted average shares outstanding	64,858,354	59,435,867
Diluted earnings per share	\$ 0.23	\$ 0.41
Diluted weighted average shares outstanding	64,980,599	59,679,807
Cash dividends declared per common share	\$ 0.20	\$ 0.15

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

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

## Consolidated Statements of Cash Flows

(Unaudited, in thousands)

	<b>For The Three Months Ended</b>	
	<b>September 30,</b>	<b>September 30,</b>
	<b>2013</b>	<b>2012</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 15,281	\$ 25,294
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation, depletion and amortization	22,400	21,500
Non-cash employee stock compensation expense	1,613	2,095
Gain on distribution to non-controlling interest		(88)
Amortization of debt discount	2,340	2,192
Tax expense (benefit) of stock-based compensation exercises	28	(773)
Deferred tax (benefit) expense	(2,857)	1,746
<b>Changes in assets and liabilities:</b>		
Royalty receivables	2,193	(10,789)
Prepaid expenses and other assets	10,297	(249)
Accounts payable	(725)	53
Foreign withholding taxes payable	(8,256)	2
Income taxes (receivable) payable	(9,010)	10,309
Other liabilities	2,183	2,250
Net cash provided by operating activities	\$ 35,487	\$ 53,542
<b>Cash flows from investing activities:</b>		
Acquisition of royalty and stream interests	(48,028)	(120,035)
Proceeds on sale of inventory restricted		118
Other	(24)	(17)
Net cash used in investing activities	\$ (48,052)	\$ (119,934)
<b>Cash flows from financing activities:</b>		
Net proceeds from issuance of common stock		1,711
Common stock dividends	(13,010)	(8,949)
Distribution to non-controlling interests	(533)	(562)
Tax expense (benefit) of stock-based compensation exercises	(28)	773
Net cash used in financing activities	\$ (13,571)	\$ (7,027)
Net decrease in cash and equivalents	(26,136)	(73,419)
Cash and equivalents at beginning of period	664,035	375,456
Cash and equivalents at end of period	\$ 637,899	\$ 302,037

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 AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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, metal 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. A metal stream is a purchase agreement that provides, in exchange for an upfront deposit payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the transaction by the purchase agreement. We may 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 months ended September 30, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending June 30, 2014. 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, 2013 filed with the Securities and Exchange Commission on August 8, 2013 ( Fiscal 2013 10-K ).

**2. ACQUISITION**

*El Morro Royalty Acquisition*

In August 2013, Royal Gold, through a wholly-owned Chilean subsidiary, acquired a 70% interest in a 2.0% net smelter return ( NSR ) royalty on certain portions of the El Morro copper gold project in Chile ( El Morro ), from Xstrata Copper Chile S.A., for \$35 million. Goldcorp Inc. holds 70% ownership of the El Morro project and is the operator, with the remaining 30% held by New Gold Inc.

The acquisition of the El Morro royalty interest has been accounted for as an asset acquisition. The total purchase price of \$35 million, plus direct transaction costs, has been recorded as a development stage royalty interest within *Royalty and stream interests, net* on our consolidated

balance sheets.

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## Notes to Consolidated Financial Statements

(Unaudited)

**3. ROYALTY AND STREAM INTERESTS, NET**

The following tables summarize the Company's royalty and stream interests as of September 30, 2013 and June 30, 2013.

<b>As of September 30, 2013</b> <b>(Amounts in thousands):</b>	<b>Cost</b>	<b>Accumulated Depletion</b>	<b>Net</b>
<b>Production stage royalty interests:</b>			
Andacollo	\$ 272,998	\$ (48,479)	\$ 224,519
Voisey's Bay	150,138	(56,285)	93,853
Peñasquito	99,172	(13,372)	85,800
Las Cruces	57,230	(13,065)	44,165
Mulatos	48,092	(25,658)	22,434
Wolverine	45,158	(9,079)	36,079
Dolores	44,878	(8,883)	35,995
Canadian Malartic	38,800	(7,190)	31,610
Holt	34,612	(7,681)	26,931
Gwalia Deeps	31,070	(7,967)	23,103
Inata	24,871	(10,036)	14,835
Ruby Hill	24,335	(5,826)	18,509
Leeville	18,322	(15,586)	2,736
Robinson	17,825	(11,403)	6,422
Cortez	10,630	(9,718)	912
Other	190,702	(123,578)	67,124
	1,108,833	(373,806)	735,027
<b>Development stage royalty interests:</b>			
Pascua-Lama	372,105		372,105
El Morro	35,074		35,074
Other	32,935		32,935
<b>Development stage stream interests:</b>			
Mt. Milligan	783,046		783,046
Other	10,418		10,418
<b>Development stage royalty and stream interests</b>	<b>1,233,578</b>		<b>1,233,578</b>
<b>Exploration stage royalty interests</b>	<b>177,324</b>		<b>177,324</b>
<b>Total royalty and stream interests</b>	<b>\$ 2,519,735</b>	<b>\$ (373,806)</b>	<b>\$ 2,145,929</b>

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## Notes to Consolidated Financial Statements

(Unaudited)

<b>As of June 30, 2013</b> <b>(Amounts in thousands):</b>	<b>Cost</b>	<b>Accumulated Depletion</b>	<b>Net</b>
<b>Production stage royalty interests:</b>			
Andacollo	\$ 272,998	\$ (44,317)	\$ 228,681
Voisey s Bay	150,138	(51,881)	98,257
Peñasquito	99,172	(12,393)	86,779
Las Cruces	57,230	(11,713)	45,517
Multos	48,092	(24,545)	23,547
Wolverine	45,158	(7,891)	37,267
Dolores	44,878	(8,186)	36,692
Canadian Malartic	38,800	(6,320)	32,480
Holt	34,612	(6,564)	28,048
Gwalia Deeps	31,070	(7,194)	23,876
Inata	24,871	(9,303)	15,568
Ruby Hill	24,335	(3,054)	21,281
Leeville	18,322	(15,484)	2,838
Robinson	17,825	(11,224)	6,601
Cortez	10,630	(9,716)	914
Other	190,702	(121,654)	69,048
	1,108,833	(351,439)	757,394
<b>Development stage royalty interests:</b>			
Pascua-Lama	372,105		372,105
Other	32,934		32,934
<b>Development stage stream interests:</b>			
Mt. Milligan	770,093		770,093
Other	10,418		10,418
<b>Development stage royalty and stream interests</b>	<b>1,185,550</b>		<b>1,185,550</b>
Exploration stage royalty interests	177,324		177,324
<b>Total royalty and stream interests</b>	<b>\$ 2,471,707</b>	<b>\$ (351,439)</b>	<b>\$ 2,120,268</b>

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

## Notes to Consolidated Financial Statements

(Unaudited)

**4. AVAILABLE-FOR-SALE SECURITIES**

The Company's available-for-sale securities as of September 30, 2013 and June 30, 2013 consist of the following:

		As of September 30, 2013 (Amounts in thousands)				
		Unrealized				
	Cost Basis	Gain	Loss		Fair Value	
Non-current:						
Seabridge	\$ 14,064		(3,315)	\$	10,749	
Other	203		(126)		77	
	\$ 14,267	\$	\$ (3,441)	\$	10,826	

		As of June 30, 2013 (Amounts in thousands)				
		Unrealized				
	Cost Basis	Gain	Loss		Fair Value	
Non-current:						
Seabridge	\$ 14,064		(4,509)	\$	9,555	
Other	203		(63)		140	
	\$ 14,267	\$	\$ (4,572)	\$	9,695	

The most significant available-for-sale security is the investment in Seabridge Gold, Inc. ( Seabridge ) common stock, acquired in June 2011 and discussed in greater detail in our Fiscal 2013 10-K. 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 quarterly 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 months ended September 30, 2013. The Company recognized a loss on available-for-sale securities of \$12.1 million during the third quarter of our fiscal year ended June 30, 2013. The Company will continue to evaluate its investment in Seabridge common stock considering additional facts and circumstances as they arise, including, but not limited to, the progress of development of Seabridge's KSM project.

**5. DEBT**

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The Company's non-current debt as of September 30, 2013 and June 30, 2013 consists of the following:

	<b>As of September 30, 2013 Non-current</b>		<b>As of June 30, 2013 Non-current</b>
	(Amounts in thousands)		
Convertible notes due 2019, net	\$ 304,604	\$	302,263
Total debt	\$ 304,604	\$	302,263

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## Notes to Consolidated Financial Statements

(Unaudited)

*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. The 2019 Notes mature on June 15, 2019. Interest expense recognized on the 2019 Notes for the three months ended September 30, 2013 and 2012, was \$5.3 million and \$5.1 million, respectively, and included the contractual coupon interest, the accretion of the debt discount and amortization of the debt issuance costs.

*Revolving credit facility*

The Company maintains a \$350 million revolving credit facility. As of September 30, 2013, the Company had no amounts outstanding under the revolving credit facility. As discussed in the Company's Fiscal 2013 10-K, the Company has financial covenants associated with its revolving credit facility. At September 30, 2013, the Company was in compliance with each financial covenant.

**6. STOCK-BASED COMPENSATION**

The Company recognized stock-based compensation expense as follows:

	<b>For The Three Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	<b>(Amounts in thousands)</b>	
Stock options	\$ 129	\$ 127
Stock appreciation rights	306	392
Restricted stock	1,267	1,130
Performance stock	(89)	446
Total stock-based compensation expense	\$ 1,613	\$ 2,095

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

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There were 24,775 and 17,925 stock options granted during the three months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$1.0 million of unrecognized compensation expense related to non-vested stock options, which is expected to be recognized over a weighted-average period of 2.3 years.

There were 84,125 and 54,400 stock-settled stock appreciation rights ( SSARs ) granted during the three months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$2.6 million of unrecognized compensation expense related to non-vested SSARs, which is expected to be recognized over a weighted-average period of 2.4 years.

There were 66,150 and 40,850 shares of restricted stock granted during the three months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$7.6 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.



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## Notes to Consolidated Financial Statements

(Unaudited)

There were 71,700 and 45,600 shares of performance stock granted during the three months ended September 30, 2013 and 2012, respectively. As of September 30, 2013, there was \$4.0 million of unrecognized compensation expense related to non-vested performance stock, which is expected to be recognized over a weighted-average vesting period of 2.0 years.

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

Basic earnings per common share were computed using the weighted average number of shares of common stock outstanding during the period, considering the effect of participating securities. Unvested stock-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock awards contain non-forfeitable dividend rights and participate equally with common stock with respect to dividends issued or declared. The Company's unexercised stock options, unexercised 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:

	<b>For The Three Months Ended</b>	
	<b>September 30, 2013</b>	<b>September 30, 2012</b>
	<b>(in thousands, except per share data)</b>	
Net income available to Royal Gold common stockholders	\$ 15,195	\$ 24,771
Weighted-average shares for basic EPS	64,858,354	59,435,867
Effect of other dilutive securities	122,245	243,940
Weighted-average shares for diluted EPS	64,980,599	59,679,807
Basic earnings per share	\$ 0.23	\$ 0.42
Diluted earnings per share	\$ 0.23	\$ 0.41

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.





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The Company's continuing practice is to recognize potential interest and/or penalties related to unrecognized tax benefits as part of its income tax expense. At September 30, 2013 and June 30, 2013, the amount of accrued income-tax-related interest and penalties was \$4.8 million and \$4.3 million, respectively.

As a result of (i) statutes of limitations that will begin to expire in the next 12 months in various jurisdictions, (ii) possible settlements of audit-related issues with taxing authorities in various jurisdictions with respect to which none of the issues are individually significant, and (iii) an additional accrual of exposure and interest on existing items, the Company believes that it is reasonably possible that the total amount of its net unrecognized income tax benefits will decrease between \$5 million and \$5.5 million in the next 12 months.

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## Notes to Consolidated Financial Statements

(Unaudited)

**9. SEGMENT INFORMATION**

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

	Revenue		Royalty and Stream Interests, net		
	2013	Three Months Ended September 30, 2012	2012	As of September 30, 2013	As of June 30, 2013
Chile	31%	26%	26%	31%	30%
Canada	26%	23%	23%	52%	52%
Mexico	18%	22%	22%	7%	7%
United States	13%	17%	17%	4%	4%
Australia	4%	3%	3%	3%	3%
Africa	3%	3%	3%	1%	1%
Other	5%	6%	6%	2%	3%

**10. 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.

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## Notes to Consolidated Financial Statements

(Unaudited)

	Carrying Amount	Total	At September 30, 2013		
			Fair Value		
			Level 1	Level 2	Level 3
<b>Assets (In thousands):</b>					
United States treasury bills(1)	\$ 539,991	\$ 539,991	\$ 539,991	\$	\$
Marketable equity securities(2)	\$ 10,826	\$ 10,826	\$ 10,826	\$	\$
Total assets		\$ 550,817	\$ 550,817	\$	\$
<b>Liabilities (In thousands):</b>					
Debt(3)	\$ 370,000	\$ 356,203	\$ 356,203	\$	\$
Total liabilities		\$ 356,203	\$ 356,203	\$	\$

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

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

(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'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.

As of September 30, 2013, 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 and stream interests, intangible assets and other long-lived assets. For these assets, measurement at fair value in periods subsequent to their initial recognition is applicable if any of these assets are determined to be impaired. None of these assets were written down to fair value during the three months ended September 30, 2013. If recognition of these assets at their fair value becomes necessary, such measurements will be determined utilizing Level 3 inputs.

**11. COMMITMENTS AND CONTINGENCIES***Mt. Milligan Gold Stream Acquisition*

The Company's final commitment payment of \$12.9 million to Thompson Creek as part of the Mt. Milligan gold stream acquisition was made in September 2013. As of September 30, 2013, the Company has no remaining commitment payments to Thompson Creek as part of the Mt. Milligan gold stream.

*Tulsequah Chief Gold and Silver Stream Acquisition*

As of September 30, 2013, the Company has a remaining commitment of \$50 million as part of its Tulsequah Chief gold and silver stream acquisition in December 2011.



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**ROYAL GOLD, INC.**

Notes to Consolidated Financial Statements

(Unaudited)

*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.

**12. RELATED PARTY**

Crescent Valley Partners, L.P. ( CVP ) was formed as a limited partnership in April 1992. It owns a 1.25% net value royalty on production of minerals from a portion of Cortez. Denver Mining Finance Company, our wholly-owned subsidiary, is the general partner. Royal Gold holds an aggregate 31.67% limited partner interest. Our Chairman of the Board of Directors, the Chairman of our Audit Committee and one other member of our board of directors hold an aggregate 35.56% limited partner interest. The general partner performs administrative services for CVP in receiving and processing the royalty payments from the operator, including the disbursement of royalty payments and record keeping for in-kind distributions to the limited partners.

CVP receives its royalty from the Cortez Joint Venture in-kind. The Company, as well as certain other limited partners, sell their pro-rata shares of such gold immediately and receive distributions in cash, while CVP holds gold for certain other limited partners. Such gold inventories, which totaled 9,840 and 9,742 ounces of gold as of September 30, 2013 and June 30, 2013, respectively, are held by a third party refinery in Utah for the account of the limited partners of CVP. The inventories are carried at historical cost and are classified within *Other assets* on the Company's consolidated balance sheets. The carrying value of the gold in inventory was approximately \$6.3 million and \$6.1 million as of September 30, 2013 and June 30, 2013, respectively, while the fair value of such ounces was approximately \$13.1 million and \$11.6 million as of September 30, 2013 and June 30, 2013, respectively. None of the gold currently held in inventory as of September 30, 2013 and June 30, 2013, is attributed to Royal Gold, as the gold allocated to Royal Gold's CVP partnership interest is typically sold within five days of receipt.



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

**General**

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, 2013 filed with the Securities and Exchange Commission (the SEC ) on August 8, 2013 (the Fiscal 2013 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, metal stream and other types of royalty or similar interests throughout this MD&A. These terms are defined in our Fiscal 2013 10-K.

**Overview**

Royal Gold, Inc., together with its subsidiaries, is engaged in the business of acquiring and managing precious metals royalties, metal 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. A metal stream is a purchase agreement that provides, in exchange for an upfront deposit payment, the right to purchase all or a portion of one or more metals produced from a mine, at a price determined for the life of the transaction by the purchase agreement. We may 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. In the ordinary course of business, we engage 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 September 30, 2013, the Company owned royalty interests on 36 producing properties, 21 development stage properties and 147 exploration stage properties, of which the Company considers 50 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 other mining, processing or other operating costs on the properties in which we hold royalty interests. During the three months ended September 30, 2013, we focused on the management of our existing royalty interests and the acquisition of royalty interests.

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 price 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.

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For the three months ended September 30, 2013 and 2012, gold, silver, copper and nickel price averages and percentage of revenue by metal were as follows:

Metal	Three Months Ended			
	September 30, 2013		September 30, 2012	
	Average Price	Percentage of Revenue	Average Price	Percentage of Revenue
Gold (\$/ounce)	\$ 1,326	70%	\$ 1,652	66%
Silver (\$/ounce)	\$ 21.32	7%	\$ 29.80	9%
Copper (\$/pound)	\$ 3.21	11%	\$ 3.50	14%
Nickel (\$/pound)	\$ 6.31	8%	\$ 7.40	8%
Other	N/A	4%	N/A	3%

**Recent Business Developments***El Morro Royalty Acquisition*

In August 2013, Royal Gold, through its wholly-owned Chilean subsidiary, acquired a 70% interest in a 2.0% NSR royalty on certain portions of the El Morro copper gold project in Chile ( El Morro ), from Xstrata Copper Chile S.A., for \$35 million. Goldcorp Inc. ( Goldcorp ) holds 70% ownership of the El Morro project and is the operator, with the remaining 30% held by New Gold Inc. ( New Gold ). Goldcorp and New Gold reported that as of December 31, 2012, proven and probable reserves totaled 9.5 million ounces of gold and 7 billion pounds of copper on a 100% basis. This royalty encompasses some legacy BHP concessions that are currently estimated by Royal Gold to cover approximately one-third of the total reserve.

Goldcorp indicated that all El Morro project field construction activities were suspended since April 27, 2012, pending the definition and implementation by the Chilean environmental permitting authority (the Servicio de Evaluación Ambiental or SEA ) of a community consultation process which corrects certain deficiencies in that process as specifically identified by the Antofagasta Court of Appeals. On October 24, 2013, Goldcorp announced that the Environmental Assessment Commission of Atacama analyzed a final report prepared by the SEA and decided on reinstatement of the environmental permit for the El Morro project, and that the project continues with community engagement, optimization of project economics and evaluation of alternatives for a long-term power supply.

**Principal Royalty and Stream Interests**

Our principal producing and development royalty and stream interests are listed alphabetically in the following tables. 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 or stream interests, production estimates, feasibility studies, metal price assumptions, mine life, legal status and other factors and assumptions, any of which could change and could cause Royal Gold to conclude that one or more of such royalty or stream interests are no longer principal to our business.

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Please refer to our Fiscal 2013 10-K for further discussion of our principal producing and development royalty and stream interests.

Table of Contents*Principal Producing Properties*

Mine	Location	Operator	Royalty (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)
Cortez	Nevada, USA	Barrick Gold Corporation ( Barrick )	GSR1: 0.40% to 5.0% sliding-scale GSR GSR2: 0.40% to 5.0% sliding-scale GSR GSR3: 0.71% GSR NVR1: 0.39% NVR
Las Cruces	Andalucía, Spain	First Quantum Minerals Ltd. ( First Quantum )	1.5% NSR (copper)
Mulatos(2)	Sonora, Mexico	Alamos Gold, Inc. ( Alamos )	1.0% to 5.0% sliding-scale NSR
Peñasquito	Zacatecas, Mexico	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 184,000 cumulative payable ounces produced as of September 30, 2013.

(2) The Mulatos royalty is capped at 2.0 million gold ounces of production. Approximately 1.16 million cumulative ounces of gold have been produced as of September 30, 2013.

*Principal Development Properties*

Mine	Location	Operator	Royalty or stream interests (Gold unless otherwise stated)
Mt. Milligan(1)	British Columbia, Canada	Thompson Creek Metals Company Inc. ( Thompson Creek )	Gold stream - 52.25% of payable gold

(1) Thompson Creek announced mill commissioning in August 2013 and anticipates commercial production in the fourth quarter of calendar 2013.

**Operators Production Estimates by Royalty Interest for Calendar 2013**

We received annual production estimates from many of the operators of our producing mines during the first calendar quarter of 2013. The following table shows such production estimates for our principal producing properties for calendar 2013 as well as the actual production reported to us by the various operators through September 30, 2013. The estimates and production reports are prepared by the operators of the mining properties. We do not participate in the preparation or calculation of the operators' estimates or production reports and have not independently assessed or verified the accuracy of such information. Please refer to Property Developments below within this MD&A for further discussion on any updates at our principal producing or development properties.



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### Operators Production Estimate by Royalty Interest for Calendar 2013 and Reported Production

#### Principal Producing Properties

For the period January 1, 2013 through September 30, 2013

Royalty	Calendar 2013 Operator's Production Estimate(1)			Reported Production through September 30, 2013(2)		
	Gold (oz.)	Silver (oz.)	Base Metals (lbs.)	Gold (oz.)	Silver (oz.)	Base Metals (lbs.)
Andacollo	63,000			52,200		
Canadian Malartic	485,000-510,000			256,600		
Cortez GSR1	48,000			35,500		
Cortez GSR2	16,000			8,300		
Cortez GSR3	64,000			43,800		
Cortez NVR1	53,000			32,600		
Holt	52,000-58,000			45,500		
Las Cruces						
<i>Copper</i>			151-159 million			110.1 million
Mulatos	180,000-200,000			156,000		
Peñasquito	370,000-390,000	20-21 million		250,400	15.5 million	
<i>Lead</i>			145-160 million			100.8 million
<i>Zinc</i>			285-305 million			185.7 million
Robinson(3)	N/A	N/A		37,700		
<i>Copper</i>			N/A			86.0 million
Voisey's Bay(3)						
<i>Copper</i>			N/A			61.8 million
<i>Nickel</i>			N/A			109.6 million
Wolverine(3)	N/A	N/A		8,900	2.1 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 2013 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, 2013 through September 30, 2013, as reported to us by the operators of the mines.

(3) The Company did not receive calendar 2013 production guidance from the operator.

## Property Developments

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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 and stream interests, as reported to us by the operators of the mines.

### *Andacollo*

Andacollo reported production was 10% higher than the prior year period based on increased mill throughput as a result of blasting and process improvement initiatives. Teck indicates that it expects grade to decline over the coming quarters as mining progresses in Phase 3 of the pit.

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*Cortez*

Reported production at Cortez decreased as Barrick continued to prioritize production at Cortez Hills that is not subject to our royalty interest. This autoclave material is required to maintain an autoclave feed at Barrick's Goldstrike processing plant.

*Holt*

Holt reported production increased 32% over the prior year quarter. Mill recoveries averaged 95%, which was higher than anticipated mainly due to sequencing of higher grade ore sources.

*Las Cruces*

Reported production decreased 11% over the prior period as First Quantum experienced lower sales volumes. First Quantum continues to test the plant with higher ore throughput rates and lower grades as it prepares to enter lower copper grade areas of the mine, which is expected in late calendar 2014.

*Mt. Milligan Stream*

On August 7, 2013, Thompson Creek announced that commissioning had begun at its new Mt. Milligan mine. This was followed by announcements on September 24, 2013, that copper-gold concentrate production had commenced, and on October 7, 2013, that movement of concentrate from site to Thompson Creek's Mackenzie load out facility had begun. Thompson Creek expects to send the first ocean shipment to market in November 2013.

*Pascua-Lama*

On October 31, 2013, Barrick reported that it has decided to temporarily suspend construction activities at Pascua-Lama, except those required for environmental protection and regulatory compliance. Barrick said its decision to re-start will depend on improved project economics such as go-forward costs, the outlook for metal prices, and reduced uncertainty associated with legal and other regulatory requirements. Barrick also indicated that its decision will maintain the option value of this major world class resource and its potential to generate significant cash flows during its 25 year mine life and beyond.

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Royal Gold holds a 0.78% to 5.23% sliding scale net smelter royalty on the Chilean side of the Pascua-Lama project and is not responsible for capital costs or other costs of the project. The Company does not expect Barrick's decision will have any impact on the carrying value of its investment in the royalty at Pascua-Lama.

### *Peñasquito*

Reported gold and silver production was lower by 23% and 12% respectively, over the prior year quarter, while reported production of lead and zinc was also lower. Goldcorp reported that the sulphide plant achieved average throughput of approximately 110,000 tonnes per day during the quarter with water availability as expected. Goldcorp narrowed its full year calendar 2013 guidance to 370,000-390,000 ounces of gold. They also reported that progress on the Northern Well Field project continues on schedule with the selection of the final pipeline routing, and they expect construction activities to commence in the fourth calendar quarter of 2013.

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*Robinson*

Reported gold production was flat while reported copper production decreased as the planned mine sequence moved to the Liberty pit which has lower copper grades. The Robinson mine's calendar year 2013 results remain on course to meet or exceed levels from calendar year 2012 as their year-to-date copper production is at 75% of calendar year 2012 and year-to-date gold production has already exceeded calendar 2012 levels.

*Wolverine*

Reported silver production increased 9% over the prior year quarter driven primarily by an increase in mine production and improvement in metallurgical performance. Yukon Zinc recently announced an increase in their production target, from 60% to 75% of design output, effective October 10, 2013. As a result, Yukon Zinc plans to commence a three-week operating period for the mill, followed by a one week shut down for maintenance. Yukon Zinc estimates they will average 1,200 tonnes per day over the four-week period.

*Voisey's Bay*

Nickel and copper production decreased as the mine completed the planned extraction of higher grade ore in calendar 2012 versus ore encountered in calendar 2013. Additionally, copper shipments completed during the June 2013 quarter were ahead of Voisey's typical copper shipment schedule causing a reduction in shipments during the current quarter.

**Results of Operations**

*Quarter Ended September 30, 2013, Compared to Quarter Ended September 30, 2012*

For the quarter ended September 30, 2013, we recorded net income attributable to Royal Gold stockholders of \$15.2 million, or \$0.23 per basic and diluted share, as compared to net income attributable to Royal Gold stockholders of \$24.8 million, or \$0.42 per basic share and \$0.41 per diluted share, for the quarter ended September 30, 2012. The decrease in our earnings per share was primarily attributable to a decrease in revenue, as discussed further below.

For the quarter ended September 30, 2013, we recognized total revenue of \$56.5 million, at an average gold price of \$1,326 per ounce, an average silver price of \$21.32 per ounce, an average copper price of \$3.21 per pound and an average nickel price of \$6.31 per pound, compared to revenue of \$77.9 million, at an average gold price of \$1,652 per ounce, an average silver price of \$29.80 per ounce, an average copper price of \$3.50 per pound and an average nickel price of \$7.40 per pound for the quarter ended September 30, 2012. Revenue and the corresponding production, attributable to our royalty interests for the quarter ended September 30, 2013 compared to the quarter ended September 30, 2012 is

as follows:

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## Revenue and Production Subject to Our Royalty Interests

Quarter Ended September 30, 2013 and 2012

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

Royalty	Metal(s)	Three Months Ended September 30, 2013		Three Months Ended September 30, 2012	
		Revenue	Reported Production(1)	Revenue	Reported Production(1)
Andacollo	Gold	\$ 17,156	17,500oz.	\$ 19,702	15,900oz.
Voisey s Bay		\$ 7,034		\$ 9,195	
	Nickel		28.4Mlbs.		33.9Mlbs.
	Copper		34.7Mlbs.		43.6Mlbs.
Peñasquito		\$ 6,558		\$ 11,150	
	Gold		101,500oz.		131,200oz.
	Silver		6.5Moz.		7.4Moz.
	Lead		39.8Mlbs.		41.7Mlbs.
	Zinc		73.5Mlbs.		96.6Mlbs.
Holt	Gold	\$ 3,887	17,000oz.	\$ 4,561	12,900oz.
Mulatos	Gold	\$ 2,701	41,600oz.	\$ 3,496	42,300oz.
Las Cruces	Copper	\$ 2,015	41.2Mlbs.	\$ 2,462	46.2Mlbs.
Canadian					
Malartic	Gold	\$ 1,714	97,600oz.	\$ 2,141	91,700oz.
Robinson		\$ 1,599		\$ 3,754	
	Gold		9,200oz.		9,100oz.
	Copper		17.8Mlbs.		36.9Mlbs.
Wolverine		\$ 1,264		\$ 1,286	
	Gold		2,000oz.		1,200oz.
	Silver		540,700oz.		494,500oz.
Dolores		\$ 1,135		\$ 1,141	
	Gold		17,300oz.		13,200oz.
	Silver		915,700oz.		773,400oz.
Leeville	Gold	\$ 1,019	43,900oz.	\$ 2,067	68,000oz.
Cortez	Gold	\$ 441	5,700oz.	\$ 2,782	25,800oz.
Other(2)	Various	\$ 9,964	N/A	\$ 14,125	N/A
	<b>Total Revenue</b>	<b>\$ 56,487</b>		<b>\$ 77,862</b>	

(1) Reported production relates to the amount of metal sales, subject to our royalty interests, for the three months ended September 30, 2013 and 2012, 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 revenue for either period presented.

The decrease in revenue for the quarter ended September 30, 2013, compared with the quarter ended September 30, 2012, resulted primarily from a decrease in the average gold, silver, copper and nickel prices and decreases in production at Voisey s Bay, Peñasquito, Las Cruces, Robinson (copper), Leeville and Cortez. These decreases during the current period were partially offset by production increases at Andacollo,

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Holt, Dolores and Wolverine. 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.

Depreciation, depletion and amortization increased to \$22.4 million for the quarter ended September 30, 2013, from \$21.5 million for the quarter ended September 30, 2012. The increase was primarily attributable to production increases at Andacollo, Holt, Dolores, Wolverine and certain of the Company's non-principal properties, which resulted in additional depletion expense of approximately \$3.4 million during the period. These increases were partially offset by decreases in production at Voisey's Bay, Peñasquito, Las Cruces, Robinson (copper), and Leeville, which resulted in a decrease in depletion expense of approximately \$1.8 million during the period.



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During the quarter ended September 30, 2013, we recognized income tax expense totaling \$4.8 million compared with \$16.5 million during the quarter ended September 30, 2012. This resulted in an effective tax rate of 24.1% in the current period, compared with 39.4% in the quarter ended September 30, 2012. The decrease in the effective tax rate for the quarter ended September 30, 2013 is primarily related to (i) a favorable tax rate associated with earnings from certain operations in lower-tax jurisdictions for which we have not provided U.S. taxes due to their indefinite reinvestment outside the U.S., (ii) a decrease in current year tax expense from a reduction in the accrual for uncertain tax positions, (iii) additional benefit from excess depletion, and (iv) a decrease in tax expense recognized in certain foreign subsidiaries without a foreign tax credit benefit. During fiscal 2014, the Company intends to assert the indefinite reinvestment of certain foreign subsidiary earnings. As a result, the Company will not provide for U.S. income taxes applicable to certain undistributed earnings. The Company has the ability to indefinitely reinvest these foreign earnings based on revenue and cash projections of our other investments, current cash on hand, and availability under our revolving credit facility. For a complete discussion of the factors that influence our effective tax rate, refer to Note 11 to the notes to consolidated financial statements in the Company's Fiscal 2013 10-K.

**Liquidity and Capital Resources**

*Overview*

At September 30, 2013, we had current assets of \$715.4 million compared to current liabilities of \$28.0 million for a current ratio of 26 to 1. This compares to current assets of \$744.5 million and current liabilities of \$35.1 million at June 30, 2013, resulting in a current ratio of approximately 21 to 1. The increase in our current ratio was primarily attributable to a decrease in the amount of foreign withholding taxes payable on certain of our foreign royalty interests. This decrease in foreign withholding taxes was partially offset by a decrease in our cash and equivalents during the period. Please refer to *Summary of Cash Flows* below for further discussion on changes to our cash and equivalents during the period.

During the quarter ended September 30, 2013, liquidity needs were met from \$56.5 million in revenue and our available cash resources. As of September 30, 2013, the Company had \$350 million available and no amounts outstanding under its revolving credit facility. The Company was in compliance with each financial covenant as of September 30, 2013. 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 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 Tulsequah Chief stream acquisition. Our long-term capital requirements are primarily affected by our ongoing acquisition activities. The Company currently, and generally at any time, has acquisition opportunities in various stages of active review. In the event of one or more substantial royalty interest or other acquisitions, we may seek additional debt or equity financing as necessary.

Please refer to our risk factors included in Part 1, Item 1A of our Fiscal Year 2013 10-K for a discussion of certain risks that may impact the Company's liquidity and capital resources.

*Summary of Cash Flows*

Operating Activities

Net cash provided by operating activities totaled \$35.5 million for the three months ended September 30, 2013, compared to \$53.5 million for the three months ended September 30, 2012. The decrease was

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primarily due to a decrease in proceeds received from our royalty interests, net of production taxes, of approximately \$12.1 million.

Investing Activities

Net cash used in investing activities totaled \$48.1 million for the three months ended September 30, 2013, compared to cash used in investing activities of \$119.9 million for the three months ended September 30, 2012. The decrease in cash used in investing activities is primarily due to a decrease in funding for the Mt. Milligan streaming interest compared to the same period of the prior year. This decrease was offset by the Company's acquisition of the El Morro royalty of approximately \$35 million in the current period. The Company made its final commitment payment to Thompson Creek as part of the Mt. Milligan gold stream acquisition during the quarter ended September 30, 2013.

Financing Activities

Net cash used in financing activities totaled \$13.6 million for the three months ended September 30, 2013, compared to cash used in financing activities of \$7.0 million for the three months ended September 30, 2012. The increase in cash used in financing activities is primarily attributable to an increase in the common stock dividend payment, which was the result of an increase in the dividend rate and an increase in the total number of common shares outstanding when compared to the same period of the prior year.

**Recently Adopted Accounting Standards**

There were no new accounting standards adopted during the quarter-ended September 30, 2013.

**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 months ended September 30, 2013. The most significant available-for-sale security is the investment in Seabridge Gold, Inc. (Seabridge) common stock, acquired in June 2011 and discussed in greater detail within our Fiscal 2013 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

Kerr-Sulphurets-Mitchell project.

*Income Taxes*

The Company accounts for income taxes in accordance with the guidance of Accounting Standards Codification Topic 740. The Company's deferred income taxes reflect the impact of temporary differences between the reported amounts of assets and liabilities for financial reporting purposes and such amounts measured by tax laws and regulations. The deferred tax assets and liabilities reflect management's best assessment of estimated future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. The Company intends to assert the indefinite reinvestment of certain foreign subsidiary earnings. As a result, no deferred taxes have been provided on such unremitted earnings. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which we

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operate or unpredicted results from the final determination of each year's liability by taxing authorities. A valuation allowance is provided for deferred tax assets when management concludes it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company's operations may involve dealing with uncertainties and judgments in the application of complex tax regulations in multiple jurisdictions. The final taxes paid are dependent upon many factors, including negotiations with taxing authorities in various jurisdictions and resolution of disputes arising from federal, state, and international tax audits. The Company recognizes potential liabilities and records tax liabilities for anticipated tax audit issues in the United States and other tax jurisdictions based on its estimate of whether, and the extent to which, additional taxes will be due. The Company adjusts these reserves in light of changing facts and circumstances; however, due to the complexity of some of these uncertainties, the ultimate resolution could result in a payment that is materially different from our current estimate of the tax liabilities. These differences will be reflected as increases or decreases to income tax expense in the period which they are determined. The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in income tax expense.

**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, without limitation, statements regarding projected production estimates and estimates pertaining to timing and commencement of production from the operators of properties where we hold royalty and stream interests; effective tax rate estimates; 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, plan, forecast, potential, intend, continue, project and variations of 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:

- 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 development stage properties, into production on schedule or operate in accordance with feasibility studies;
- challenges to mining, processing and related permits and licenses, or to applications for permits and licenses, by or on behalf of indigenous populations, non-governmental organizations or other third parties;

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- 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

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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;
- 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;

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- 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;

as well as other factors described elsewhere in this Quarterly Report on Form 10-Q, our Fiscal 2013 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. Forward-looking statements speak only as of the date on which they are made. 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.



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**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 other metals. Gold, silver, copper, nickel and other metal prices can fluctuate significantly and are affected by numerous factors, such as demand, production levels, economic policies of central banks, producer hedging, world political and economic events and the strength of the U.S. dollar relative to other currencies. Please see *Volatility in gold, silver, copper, nickel and other metal prices may have an adverse impact on the value of our royalty interests and reduce our revenues. Certain contracts governing our royalty interests have features that may amplify the negative effects of a drop in metal prices,* under Part I, Item 1A of our Fiscal 2013 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 three month period ended September 30, 2013, we reported revenue of \$56.5 million, with an average gold price for the period of \$1,326 per ounce, an average silver price of \$21.32 per ounce, an average copper price of \$3.21 per pound and an average nickel price of \$6.31 per pound. Approximately 70% of our total recognized revenues for the three months ended September 30, 2013 were attributable to gold sales from our gold producing royalty interests, as shown within the MD&A. For the three months ended September 30, 2013, if the price of gold had averaged 10% higher or lower per ounce, we would have recorded an increase or decrease in revenue of approximately \$4.6 million and \$4.5 million, respectively.

Approximately 11% of our total recognized revenues for the three months ended September 30, 2013 were attributable to copper sales from our copper producing royalty interests. For the three months ended September 30, 2013, if the price of copper had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenue of approximately \$0.7 million.

Approximately 7% of our total recognized revenues for the three months ended September 30, 2013 were attributable to silver sales from our silver producing royalty interests. For the three months ended September 30, 2013, if the price of silver had averaged 10% higher or lower per ounce, we would have recorded an increase or decrease in revenue of approximately \$0.4 million.

Approximately 8% of our total recognized revenues for the three months ended September 30, 2013 were attributable to nickel sales from our nickel producing royalty interests. For the three months ended September 30, 2013, if the price of nickel had averaged 10% higher or lower per pound, we would have recorded an increase or decrease in revenue of approximately \$0.5 million.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

As of September 30, 2013, 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 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

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Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act ). Based on such evaluation, the Company's President and Chief Executive Officer and its Chief Financial Officer and Treasurer have concluded that, as of September 30, 2013, 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

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its Chief Financial Officer and Treasurer, as appropriate to allow timely decisions regarding required disclosure.

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

**Changes in Internal Controls**

There has been no change in the Company's internal control over financial reporting during the three months ended September 30, 2013, that has materially affected, or that is reasonably likely to materially affect, the Company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

*Voisey's Bay*

Refer to Note 11 of our notes to consolidated financial statements for a discussion on litigation associated with our Voisey's Bay royalty. There was no material development to this litigation during the three months ended September 30, 2013.

**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 below and elsewhere in Item 2 Management's Discussion and Analysis of 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 2013 10-K.

*Changes in United States tax legislation regarding our foreign earnings could adversely impact our business.*

We are subject to income taxes in the United States and various foreign jurisdictions. Currently, the majority of our revenue is generated from royalty interests located outside, and taxed in, the United States. United States income and foreign withholding taxes have not been provided on specific foreign earnings which are intended to be indefinitely reinvested within a foreign subsidiary. The current Administrative branch of government has proposed various international tax measures, some of which, if enacted into law, would substantially reduce our ability to defer United States taxes on such indefinitely reinvested non-United States earnings, eliminate certain tax deductions until foreign earnings are repatriated to the United States and/or otherwise cause the total tax cost of U.S. multinational corporations to increase. If these or similar proposals are constituted into legislation in the current or future year(s), they could have a negative impact on our financial position and results of operations.

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

Not applicable.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

Not applicable.

**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: November 7, 2013

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

Date: November 7, 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 Number</b>	<b>Description</b>
3.1	Amended and Restated Bylaws, as amended on August 28, 2013.
10.1*	2004 Omnibus Long-Term Incentive Plan, as amended (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.2*	Form of Incentive Stock Option Agreement (Officer) under Royal Gold's 2004 Omnibus Long-Term Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.3*	Form of Director Restricted Stock Agreement under Royal Gold's 2004 Omnibus Long-Term Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.4*	Form of Restricted Stock Agreement (Officer) under Royal Gold's 2004 Omnibus Long-Term Incentive Plan (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.5*	Form of Performance Share Agreement (Officer) under Royal Gold's 2004 Omnibus Long-Term Incentive Plan (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.6*	Form of Stock Appreciation Rights Agreement - Stock Settled (Officer) under Royal Gold's 2004 Omnibus Long-Term Incentive Plan (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K on September 3, 2013 and incorporated herein by reference).
10.7*	Form of Employment Agreement by and between Royal Gold, Inc. and Tony Jensen (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K on September 19, 2013 and incorporated herein by reference).
10.8*	Form of Employment Agreement by and between Royal Gold, Inc. and each of the following individuals: Stefan Wenger, William Heissenbittel, Bruce C. Kirchhoff and William Zisch (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K on September 19, 2013 and incorporated herein by reference).
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.





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101.LAB\*\* XBRL Taxonomy Extension Label Linkbase Document.

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document.

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

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