ROYAL GOLD INC
Form 10-K
August 22, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)

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

For the Fiscal Year Ended June 30, 2007

or

o **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

Royal Gold, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware	**84-0835164**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
1660 Wynkoop Street, Suite 1000 Denver, Colorado	**80202**
(Address of Principal Executive Offices)	**(Zip Code)**

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value
(title of class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

(Check one): Large accelerated filer þ Accelerated filer o Non-accelerated filer o

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

Aggregate market value of the voting stock held by non-affiliates of the registrant, based upon the closing sale price of Royal Gold on December 31, 2006, as reported on the NASDAQ Global Select Market was $724.7 million. As of August 15, 2007, there were 28,663,756 shares of the registrant s common stock, $0.01 par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2007 Annual Meeting of Stockholders scheduled to be held on November 7, 2007, and to be filed within 120 days after June 30, 2007, are incorporated by reference into Part III, Items 10, 11, 12, 13 and 14 of this Annual Report on Form 10-K.

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This document (including information incorporated herein by reference) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve a degree of risk and uncertainty due to various factors affecting Royal Gold, Inc. and its subsidiaries. For a discussion of some of these factors, see the discussion in Item 1A, Risk Factors, of this report.

PART I

ITEM 1. BUSINESS

General

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

We seek to acquire existing royalties or to finance projects that are in production or near production in exchange for royalty interests. We also fund exploration on properties thought to contain precious metals and seek to obtain royalties and other carried ownership interests in such properties through the subsequent transfer of operating interests to other mining companies. Substantially all of our revenues are and will be expected to be derived from royalty interests. We do not conduct mining operations at this time. During the 2007 fiscal year, we focused on the management of our existing royalty interests, the acquisition of royalty interests through asset and corporate transactions, and the creation of royalty interests through financing and strategic exploration alliances.

As discussed in further detail throughout this report, some of our significant developments during fiscal year 2007 were as follows:

(1) Our royalty revenues increased to $48.4 million, compared with $28.4 million during fiscal year 2006;

(2) We completed the purchase of a 2.0% net smelter return (NSR) royalty interest on the Peñasquito project located in the State of Zacatecas, Mexico, and under development by a subsidiary of Goldcorp Inc. (Goldcorp);

(3) We, through a newly-formed, wholly-owned Chilean subsidiary, Royal Gold Chile Limitada (RGCL), completed the purchase of two royalty interests on the Pascua-Lama project (Pascua-Lama) located in Chile and under development by a subsidiary of Barrick Gold Corporation (Barrick);

(4) We completed the purchase of a sliding-scale NSR royalty and certain unpatented mining claims on the Gold Hill deposit located in Nye County, Nevada, and operated by Kinross Gold Corporation (Kinross);

(5) We entered into a definitive merger agreement with Battle Mountain Gold Exploration Corp. (Battle Mountain);

(6) We sold 4,400,064 shares of our common stock in an underwritten public offering, at a price of $29.25 per share, resulting in net proceeds to us of approximately $121.9 million; and

(7) We declared an increase in our calendar year dividend to $0.26 per basic share, which is paid in quarterly installments throughout calendar 2007. This represents an 18% increase compared with the dividend paid during calendar year 2006.

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Our Producing Royalty Interests

Our principal royalty interests are shown in the following table. Please see Item 2, Properties, of this report for further discussion on our producing royalty interests.

Mine	Location	Operator	Royalty (Gold unless otherwise stated)
Pipeline Mining Complex	Lander County, NV	Barrick	GSR1: 0.40%-5.0% sliding- scale gross smelter return (GSR) GSR2: 0.72%-9.0% sliding- scale GSR, GSR3: 0.71% GSR NVR [1]: 0.39% net value royalty (NVR)
Robinson	White Pine, NV	Quadra Mining Ltd. (Quadra)	3.0% net smelter return (NSR) (copper, gold, silver, molybdenum)
SJ Claims Goldstrike	Eureka County, NV	Barrick	0.9% NSR
Troy	Lincoln County, MT	Revett Minerals, Inc. (Revett)	7.0% GSR (silver and copper)
Leeville Mining Complex (Leeville North and Leeville South)	Eureka County, NV	Newmont Mining Corporation (Newmont)	1.8% NSR
Bald Mountain	White Pine County, NV	Barrick	1.75%-3.5% sliding-scale NSR
Mulatos	Sonora, Mexico	Alamos Gold, Inc. (Alamos)	0.30%-1.5% sliding-scale NSR
Martha	Santa Cruz Province, Argentina	Coeur d Alene Mines Corporation (Coeur d Alene)	2.0% NSR (silver)

[1] The NVR1 royalty is a 1.25% NVR royalty. The Company owns 31.6% of the 1.25% NVR (or 0.39%), while our consolidated minority interest owns the remaining portion of the 1.25% NVR.

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Our Development Stage Royalty Interests

We also own the following royalty interests that are currently in development stage and are not yet in production. Please see Item 2, Properties, of this report for further discussion on our development stage royalty interests.

Mine	Location	Operator	Royalty (Gold unless otherwise stated)
Taparko [1]	Burkina Faso	High River Gold Mines Ltd. (High River)	15% GSR (TB-GSR1) and a 4.3% GSR (TB-GSR2) (or a sliding-scale)
Peñasquito [2]	Zacatecas, Mexico	Goldcorp	2.0% NSR
Pascua-Lama [2]	Atacama, Chile	Barrick	0.16%-1.08% sliding-scale NSR
Gold Hill	Nye County, NV	Kinross	1.0%-2.0% sliding-scale NSR

(1) In July 2007, High River announced initial gold production at Taparko and that they expect to produce approximately 35,000 ounces of gold during the remainder of calendar 2007.

(2) See Item 7, Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations, for further discussion on this royalty acquisition.

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Our Exploration Stage Royalty Interests

In addition, we own royalty interests in the following exploration stage projects. None of these exploration stage projects contains proven and probable reserves as of December 31, 2006. Please see Item 2, Properties, of this report for further discussion on our exploration stage royalty interests.

Property	Location	Royalty	Controlled By
Santa Cruz Province	Argentina	2.0% NSR	Hidefield Gold PLC (Hidefield)
Long Valley	California	1.0% NSR	Vista Gold Corporation (Vista Gold)
Kettukuusikko	Finland	2.0% NSR	Taranis Resources, Inc. (Taranis:)
Rock Creek	Montana	1.0% NSR	Revett
Mule Canyon	Nevada	5.0% NSR	Newmont
Buckhorn South	Nevada	16.5% Net Profits Interest (NPI)	Cortez JV
Ferris/Cooks Creek	Nevada	1.5% NVR	Cortez JV
Horse Mountain	Nevada	0.2% NVR	Cortez JV
Simon Creek	Nevada	1.0% NSR	Barrick
Rye	Nevada	0.5% NSR	Barrick
BSC	Nevada	2.5% NSR	Nevada Pacific Gold (Nevada Pacific)
ICBM	Nevada	0.75% NSR	BH Minerals
Long Peak	Nevada	0.75% NSR	BH Minerals
Dixie Flats	Nevada	0.75% NSR	BH Minerals
Svetloye	Russia	1.0% NSR	Fortress Minerals Corporation (Fortress)

Our Operational Information

Financial Results

Our financial results are closely tied to the price of gold and other metals and production from our royalty properties. During the 2007 fiscal year, the price of gold averaged $638 per ounce compared with an average price of $527 per ounce for the 2006 fiscal year. As a result of increased gold prices and increased revenues from the Robinson and Mulatos mines and increased production at the Leeville Mining Complex and Troy mine, our royalty revenues increased to $48.4 million during fiscal 2007 compared with $28.4 million during fiscal 2006.

During our fiscal 2007, we derived most of our revenue from royalties from the Pipeline Mining Complex. In fiscal 2007, we generated royalty revenues of $21.5 million from the Pipeline Mining Complex, representing 44% of our total revenues, compared to $16.8 million, or 59% of our total revenues in fiscal 2006.

Our financial results are discussed in Part II, Item 7, Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operation, and within our audited consolidated financial statements as discussed in Part II, Item 8, Financial Statements and Supplementary Data.

Competition

The mining industry in general and the royalty segment in particular are intensely competitive. We compete with other royalty companies, mine operators and financial buyers in efforts to acquire existing royalties and with the lenders and investors providing debt and equity financing in connection with

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providing financing of mineral projects in our efforts to create new royalties. Many of our competitors in the lending and mining business are larger than we are and have greater access to capital than we have. Key competitive factors in the royalty acquisition and financing business include price, structure and access to capital.

Regulation

Like all mining operations in the United States, the operators of the mines that are subject to our royalties must comply with environmental laws and regulations promulgated by federal, state and local governments including, but not limited to, the National Environmental Policy Act; the Comprehensive Environmental Response, Compensation and Liability Act; the Clean Air Act; the Clean Water Act; the Hazardous Materials Transportation Act; and the Toxic Substances Control Act. Mines located on public lands are subject to comprehensive regulation by either the United States Bureau of Land Management (an agency of the United States Department of the Interior) or the United States Forest Service (an agency of the United States Department of Agriculture). The mines also are subject to regulations of the United States Environmental Protection Agency (EPA), the United States Mine Safety and Health Administration and similar state and local agencies. Operators of mines that are subject to our royalties in other countries are obligated to comply with similar laws and regulations in those jurisdictions. Although we are not responsible as a royalty owner for ensuring compliance with these regulations, failure by the operators of the mines on which we have royalties to comply with applicable laws, regulations and permits can result in injunctive action, damages and civil and criminal penalties on the operators which could reduce production from the mines and thereby reduce the royalties we receive and negatively affect our financial condition.

Corporate Information

We were incorporated under the laws of the State of Delaware on January 5, 1981. Our executive offices are located at 1660 Wynkoop Street, Suite 1000, Denver, Colorado 80202, (303) 573-1660.

Available Information

Royal Gold maintains an internet website at www.royalgold.com. Royal Gold makes available, free of charge, through the Investor Relations section of the web site, its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to those reports, as soon as reasonably practicable after such material is electronically filed with the Securities and Exchange Commission (SEC). Our SEC filings are available from the SEC s Internet site at www.sec.gov, which contains reports, proxy and information statements and other information regarding issuers that file electronically. These reports, proxy statements and other information may also be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference facilities. Royal Gold s charters of key committees of its Board of Directors and its Code of Business Conduct and Ethics are also available on the Company s website. Any of the foregoing information is available in print to any stockholder who requests it by contacting Royal Gold s Investor Relations Department at 303-573-1660.

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Company Personnel

On August 15, 2007, we had 15 employees located in Denver, Colorado. Our employees are not subject to a labor contract or a collective bargaining agreement. We consider our employee relations to be good.

Consulting services, relating primarily to geologic and geophysical interpretations and also relating to such metallurgical, engineering, and other technical matters as may be deemed useful in the operation of our business, are primarily provided by independent contractors.

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ITEM 1A. RISK FACTORS

An investment in our Common Stock involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks. The market or trading price of our securities could decline due to any of these risks. In addition, please see our note about forward-looking statements included in Part I, Item 7, Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations, of this Annual Report on Form 10-K. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

Risks Related to Our Business

Our revenues are largely dependent on a single property.

In fiscal year 2007, approximately 44% of our revenues were derived from royalties from the Pipeline Mining Complex, compared to approximately 59% being derived from the Pipeline Mining Complex in fiscal year 2006. We expect that revenue from our royalties on the Pipeline Mining Complex will continue to be a significant, though less dominant, contributor to our revenue in future periods. The Pipeline Mining Complex will continue to be material to our results of operations.

We own passive interests in mining properties and it is difficult or impossible for us to ensure properties are operated in our best interest.

All of our current revenue is derived from royalties on properties operated by third parties. The holder of a royalty interest typically has no executive authority regarding development or operation of a mineral property. Therefore, we are not in control of basic decisions regarding development or operation of any of the properties in which we hold a royalty interest, and we have limited or no legal rights to influence those decisions.

Our strategy of having others operate properties in which we retain a royalty or other passive interest puts us generally at risk to the decisions of others regarding all basic operating matters, including permitting, feasibility analysis, mine design and operation, processing, plant and equipment matters, and temporary or permanent suspension of operations, among others. These decisions may be motivated by the best interests of the operator rather than to maximize royalties. Although we attempt to secure contractual rights that will permit us to protect our interests, there can be no assurance that such rights will always be available or sufficient, or that our efforts will be successful in achieving timely or favorable results or in affecting the operations of the properties in which we have royalty interests in ways that would be beneficial to our stockholders.

Volatility in gold and other metal prices may have an adverse impact on the value of our royalty interests and reduce our royalty revenues.

The profitability of our royalty interests and exploration properties is directly related to the market price of gold and, to a lesser degree, other metals. The market price of each metal can fluctuate significantly and is affected by numerous factors beyond the control of any mining company. These factors include supply and demand fundamentals, expectations with respect to the rate of inflation, the relative strength of the U.S dollar and other currencies, interest rates, gold sales and loans by central banks, forward sales by metal producers, global or regional political, economic or banking crises, and a number of other factors. If the market price of gold, silver or copper should drop, our royalty revenues would also drop. Our

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sliding-scale GSR1 royalty amplifies this. When the gold price falls below the steps in the sliding-scale GSR1 royalty, we receive a lower royalty rate on production. In addition, if the gold, silver or copper price drops dramatically, we might not be able to recover our investment in royalty interests or properties. The selection of a royalty investment or of a property for exploration or development, the determination to construct a mine and place it into production, and the dedication of funds necessary to achieve such purposes are decisions that must be made long before the first revenues from production will be received. Price fluctuations between the time that such decisions are made and the commencement of production can have a material adverse effect on the economics of a mine, and can eliminate or have a material adverse impact on the value of royalty interests.

The volatility in gold prices is illustrated by the following table, which sets forth, for the periods indicated (calendar year), the high and low prices in U.S. dollars per ounce of gold, based on the London P.M. fix.

Gold Price Per Ounce ($)

Year	High	Low
1998	$313	$273
1999	326	253
2000	312	263
2001	293	256
2002	349	278
2003	416	320
2004	454	375
2005	537	411
2006	725	525
2007 (through August 15, 2007)	691	608

The volatility in silver prices is illustrated by the following table which sets forth, for the periods indicated (calendar year), the high and low prices in U.S. dollars per ounce of silver, based on the London P.M. fix.

Silver Price Per Ounce ($)

Year	High	Low
1998	$ 7.81	$ 4.69
1999	5.75	4.88
2000	5.45	4.57
2001	4.82	4.07
2002	5.10	4.24
2003	5.97	4.37
2004	8.29	5.50
2005	9.23	6.39
2006	14.94	8.83
2007 (through August 15, 2007)	14.58	12.21

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The volatility in copper prices is illustrated by the following table, which sets forth, for the periods indicated (calendar year), the high and low prices in U.S. dollars per pound of copper, based on the London Metal Exchange cash settlement price for copper Grade A.

Copper Price Per Pound ($)

Year	High	Low
1998	$0.82	$0.67
1999	0.80	0.63
2000	0.89	0.76
2001	0.81	0.62
2002	0.75	0.67
2003	1.00	0.72
2004	1.43	1.10
2005	2.08	1.44
2006	3.65	2.15
2007 (through August 15, 2007)	3.73	2.37

We depend on the services of our President and Chief Executive Officer, our Executive Chairman and other key employees.

We believe that our success depends on the continued service of our key executive management personnel. Currently, Tony Jensen is serving as President and Chief Executive Officer and Stanley Dempsey is serving as our Executive Chairman. Mr. Jensen has extensive experience in mining operations. Mr. Dempsey s knowledge of the legal and commercial aspects of royalties and his extensive contacts within the mining industry give us an important competitive advantage. Loss of the services of Mr. Jensen, Mr. Dempsey or other key employees could jeopardize our ability to maintain our competitive position in the industry. We currently do not have key person life insurance for any of our officers or directors.

Our revenues are subject to operational risks of the mining industry.

Although we are not required to pay operating costs, our financial results are subject to all of the hazards and risks normally associated with developing and operating mining properties, both for the properties where we have strategic exploration alliances or indirectly for properties operated by others where we hold royalty interests. These risks include:

- insufficient ore reserves;
- fluctuations in production costs by the operators or third parties that may make mining of ore uneconomic or impact the amount of reserves;
- declines in the price of gold and other metals;
- significant environmental and other regulatory restrictions;
- labor disputes;

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- geological problems;
- pit walls or tailings dam failures;
- natural catastrophes such as floods or earthquakes; and
- the risk of injury to persons, property or the environment.

Operating cost increases can have a negative effect on the value of and income from our royalty interests, and may cause an operator to curtail, delay or close operations at a mine site.

Estimates of reserves and mineralization by the operators of mines in which we have royalty interests are subject to significant revision.

There are numerous uncertainties inherent in estimating proven and probable reserves and mineralization, including many factors beyond our control or that of the operators of mineral properties in which we have a royalty interest. Reserve estimates on our royalty interests are prepared by the operators of the mining properties. We do not participate in the preparation or verification of such reports and have not independently assessed or verified the accuracy of such information. The estimation of reserves and of other mineralization is a subjective process and the accuracy of any such estimates is a function of the quality of available data, engineering and geological interpretation, and judgment. Results of drilling, metallurgical testing and production, and the evaluation of mine plans subsequent to the date of any estimate, may cause revision of such estimates. The volume and grade of reserves recovered and rates of production may be less than anticipated. Assumptions about gold and other precious metal prices are subject to great uncertainty and such prices have fluctuated widely in the past. Declines in the market price of gold or other precious metals also may render reserves or mineralization containing relatively lower grades of ore uneconomic to exploit. Changes in operating and capital costs and other factors including short-term operating factors, such as the need for sequential development of ore bodies and the processing of new or different ore grades, may materially and adversely affect reserves.

Estimates of production by the operators of mines in which we have royalty interests are subject to change.

Production estimates are prepared by the operators of the mining properties. There are numerous uncertainties inherent in estimating anticipated production attributable to our royalty interests, including many factors beyond our control or that of the operators of mineral properties in which we have royalty interests. We do not participate in the preparation or verification of production estimates and have not independently assessed or verified the accuracy of such information. The estimation of anticipated production is a subjective process and the accuracy of any such estimates is a function of the quality of available data, reliability of production history, variability in grade encountered, mechanical or other problems encountered and engineering and geological interpretation and operator judgment. Rates of production may be less than anticipated. Results of drilling, metallurgical testing and production, and the evaluation of mine plans subsequent to the date of any estimate may cause actual production to vary materially from such estimates.

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We may be unable to successfully acquire additional royalty interests.

Our future success depends upon our ability to acquire royalty interests at appropriate valuations, including through corporate acquisitions, to replace depleting reserves and to diversify our royalty portfolio. We anticipate that most of our revenues will be derived from royalty interests that we acquire or finance, rather than through exploration and development of properties. There can be no assurance that we will be able to identify and complete the acquisition of such royalty interests, or businesses that own desired royalty interests, at reasonable prices or on favorable terms. In addition, we face competition in the acquisition of royalty interests. If we are unable to successfully acquire additional royalties, the reserves on properties currently covered by our royalties will decline as existing reserves are mined. Furthermore, we may experience negative reactions from the financial markets, our collaborative partners and employees if we are unable to successfully complete acquisitions of royalty interests or businesses that own desired royalty interests. Each of these factors may adversely affect the trading price of our Common Stock or financial results and operations.

Acquired royalty interests may not produce anticipated royalty revenues.

The royalty interests we acquire may not produce the anticipated royalty revenues. The success of our royalty acquisitions is based on our ability to make accurate assumptions regarding the valuation and timing and amount of royalty payments, particularly acquisitions of royalties on development stage properties. If the operator does not bring the property into production and operate in accordance with feasibility studies, acquired royalty interests may not yield royalty revenues or sufficient royalty revenues to be profitable. The Taparko project in Burkina Faso and the Peñasquito project in Mexico represent our largest development stage royalty acquisitions to date. In addition, our Pascua-Lama acquisition in Chile is in a pre-production stage. The failure of these projects to produce anticipated royalty revenues may materially and adversely affect our financial condition, results of operations and cash flows.

Anticipated federal legislation could decrease our royalty revenues.

In recent years, the United States Congress has considered a number of proposed major revisions of the General Mining Law, which governs the creation and possession of mining claims and related activities on federal public lands in the United States. It is possible that another bill may be introduced in the Congress and it is possible that a new law could be enacted. If a new mining law is enacted, it might impose a royalty upon production of minerals from federal lands and might contain new requirements for mined land reclamation, and similar environmental control and reclamation measures. It remains unclear to what extent new legislation may affect existing mining claims or operations, but it could raise the cost of mining operations, perhaps materially affecting operators and our royalty revenue.

The effect of any revision of the General Mining Law on our royalty interests in the United States cannot be determined conclusively until such revision, if any, is enacted. The majority of our United States royalty interests are on public lands. If a royalty, assessment, production tax, or other levy imposed on and measured by production is charged to the operator at the Pipeline Mining Complex, the amount of that charge would be deducted from gross proceeds for calculation of our GSR1, GSR2 and GSR3 royalties, which would reduce our royalty revenues from these royalties.

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The mining industry is subject to significant environmental risks.

Mining is subject to potential risks and liabilities associated with pollution of the environment and the disposal of waste products occurring as a result of mineral exploration and production. Laws and regulations in the United States and abroad, intended to ensure the protection of the environment, are constantly changing and generally are becoming more restrictive and costly. Insurance against environmental risks (including potential liability for pollution or other hazards as a result of the disposal of waste products occurring from exploration and production) is not generally available to the companies within the mining industry, such as the operators of the mines in which we hold a royalty interest, at a reasonable price. If an operator is forced to incur significant costs to comply with environmental regulations or becomes subject to environmental restrictions that limit its ability to continue or expand operations, it could reduce our royalty revenues. To the extent that we become subject to environmental liabilities for the time period during which we were operating properties, the satisfaction of any liabilities would reduce funds otherwise available to us and could have a material adverse effect on our financial condition, results of operations and cash flows.

If title to properties are not properly maintained by the operators, our royalty revenues may be decreased.

The validity of unpatented mining claims, which constitute a significant portion of the properties on which we hold royalties in the United States, is often uncertain and such validity is always subject to contest. Unpatented mining claims are generally considered subject to greater title risk than patented mining claims, or real property interests that are owned in fee simple. Because unpatented mining claims are self-initiated and self-maintained, they possess some unique vulnerabilities not associated with other types of property interests. It is impossible to ascertain the validity of unpatented mining claims from public real property records, and therefore it can be difficult or impossible to confirm that all of the requisite steps have been followed for location and maintenance of an unpatented mining claim. If title to unpatented mining claims included among our royalty properties is not properly maintained, our royalty revenues could be adversely affected.

Foreign operations are subject to many risks.

Our foreign activities are subject to the risks normally associated with conducting business in foreign countries. This includes exchange controls and currency fluctuations, limitations on repatriation of earnings, foreign taxation, foreign environmental laws and enforcement, expropriation or nationalization of property, labor practices and disputes, and uncertain political and economic environments. There are also risks of war and civil disturbances, as well as other risks that could cause exploration or development difficulties or stoppages, restrict the movement of funds or result in the deprivation or loss of contract rights or the taking of property by nationalization or expropriation, without fair compensation. Exploration licenses granted by some foreign countries do not include the right to mine. Each country has discretion in determining whether to grant a license to mine. If an operator cannot secure a mining license following exploration of a property, the value of our royalty interest would be negatively affected. Foreign operations could also be adversely impacted by laws and policies of the United States affecting foreign trade, investment, and taxation. We currently have interests in projects in Argentina, Burkina Faso, Finland, Mexico, Russia and Chile. We also evaluate precious metal royalty acquisitions or development opportunities in other parts of the world, including Canada, Central America, Europe, Australia, other Republics of the former Soviet Union, Asia, Africa and South America.

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We are also subject to the risks of operating in Burkina Faso, West Africa. Countries in the region have historically experienced periods of political uncertainty, exchange rate fluctuations, balance of payments and trade difficulties and problems associated with extreme poverty and unemployment. Any of these economic or political risks could adversely affect the Taparko project.

Our operations in Mexico are subject to risks such as the effects of political developments and local unrest, and communal property issues. In the past, Mexico has experienced prolonged periods of weak economic conditions characterized by exchange rate instability, increased inflation and negative economic growth, all of which could occur again in the future. Any of these risks could adversely affect the Mulatos mine and the Peñasquito project.

We hold a royalty interest in an exploration property that is subject to the risks of operating in Russia. The economy of the Russian Federation continues to display characteristics of an emerging market, including extensive currency controls and potentially high inflation. The prospects for future economic stability in the Russian Federation are largely dependent upon the effectiveness of economic measures undertaken by the government, together with legal, regulatory and political developments. Russian laws, licenses and permits have been in a state of change and new laws may be given a retroactive effect.

Our Martha royalty is subject to risks relating to operating in Argentina. Argentina, while currently economically and politically stable, has experienced political instability, currency fluctuations and changes in banking regulations in recent years. Future instability, currency value fluctuations or regulation changes could adversely affect our revenues from the Martha mine.

Risks Related to Our Common Stock

Our stock price may continue to be volatile and could decline.

The market price of our common stock has fluctuated and may decline in the future. The high and low sale prices of our common stock were $20.50 and $12.30 in the fiscal year ended June 30, 2005, $41.66 and $18.74 in the fiscal year ended June 30, 2006 and $37.50 and $23.25 for the fiscal year ended June 30, 2007. The fluctuation of the market price of our common stock has been affected by many factors that are beyond our control, including:

- market prices of gold and other metals;
- interest rates;
- expectations regarding inflation;
- ability of operators to produce precious metals and develop new reserves;
- currency values;
- general stock market conditions; and
- global and regional political and economic conditions.

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We may change our dividend policy.

We have declared a cash dividend on our Common Stock for each fiscal year beginning in fiscal year 2000. Our board of directors has discretion in determining whether to declare a dividend based on a number of factors, including prevailing gold prices, economic market conditions and funding requirements for future opportunities or operations. If our board of directors declines to declare dividends in the future, or reduces the current dividend level, our stock price could fall, and the success of an investment in our Common Stock would depend solely upon any future stock price appreciation in value.

Certain anti-takeover provisions could delay or prevent a third party from acquiring us.

Provisions in our Certificate of Incorporation may make it more difficult for third parties to acquire control of us or to remove our management. Some of these provisions are:

- Permit our board of directors to issue preferred stock that has rights senior to the Common Stock without shareholder approval; and

- Provide for three classes of directors serving staggered, three-year terms.

We are also subject to the business combination provisions of Delaware law that could delay, deter or prevent a change in control. In addition, we have adopted a Stockholder s Rights Plan that imposes significant penalties upon a person or group that acquires 15% or more of our outstanding Common Stock without the approval of the board of directors. Any of these measures could prevent a third party from pursuing an acquisition of Royal Gold, even if shareholders believe the acquisition is in their best interests.

ITEM 2. PROPERTIES

Royalties on Producing Properties

Recent activities at each of the significant producing properties in which we have a royalty interest are described in the following pages. Please also see Note 3 to the Consolidated Financial Statements included in Part II, Item 8. Financial Statements and Supplementary Data of this Annual Report on Form 10-K for additional information on these properties.

We do not operate the properties in which we have royalty interests and therefore much of the information disclosed in this Form 10-K regarding these properties is provided to us by the operators. For example, the operators of the various properties provide us information regarding metals production, estimates of mineral reserves and additional mineralization. There is more information available to the public from the operators of the properties in which we have royalties, including reports filed by Newmont, Coeur d Alene, and Barrick with the Securities and Exchange Commission. For risks to our business associated with operations of mining properties by third parties see generally the risks described under Part I, Item 1A, Risk Factors. For risks associated with the operators reserve estimates, please see Part I, Item 1A, Risk Factors *Estimates of reserves and mineralization by the operators of mines in which we have royalty interests are subject to significant revision* of this Annual Report on Form 10-K for further detail.

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Pipeline Mining Complex

The Pipeline Mining Complex is a large open pit, mill and heap leach operation located approximately 60 air miles southwest of Elko, Nevada, in Lander County. The site is reached by driving west from Elko on Interstate 80 approximately 46 miles, and proceeding south on State Highway 306 approximately 23 miles. The Pipeline Mining Complex includes the Pipeline, South Pipeline, Gap and Crossroads deposits and is operated by the Cortez Joint Venture.

The royalty interests we hold at the Pipeline Mining Complex include:

(a) Reserve Claims (GSR1). This is a sliding-scale GSR royalty for all gold produced from the Reserve Claims, which includes 52 claims that encompass all of the proven and probable reserves in the Pipeline and South Pipeline deposits as of April 1, 1999. As defined in our royalty agreement with Cortez, our GSR royalty applies to revenues attributed to products mined and removed, with no deduction for any costs paid by or charged to Cortez, except for deductions of Mining Law reform costs. Mining Law reform costs includes all amounts paid by or charged to Cortez for any royalty, assessment, production tax or other levy imposed on and measured by production, to the extent that any such levy is hereafter imposed by the United States, in connection with reform of the General Mining Law or otherwise. As defined, no such Mining Law reform costs are currently deducted since no such reform has yet occurred. The revenues attributed to Cortez are determined on a deemed market value basis of total production for each calendar quarter outturned to Cortez s account at the refiner. The GSR royalty rate on the Reserve Claims is tied to the gold price, without indexing for inflation or deflation as shown in the table below.

(b) GAS Claims (GSR2). This is a sliding-scale GSR royalty for all gold produced from the 288 claims outside of the Reserve Claims. The GAS Claims include 310 lode mining claims, but production from 22 of the GAS Claims that encompass the South Pipeline reserve as of April 1, 1999, are subject to the Reserve Claims GSR royalty. The GSR royalty rate on the GAS Claims is tied to the gold price, without indexing for inflation or deflation, and applies to revenues attributed to products mined and removed, with no deduction of costs, except for Mining Law reform costs, if any.

(c) Reserve and GAS Claims Fixed Royalty (GSR3). The GSR3 royalty is a fixed rate GSR royalty of 0.7125% for the life of the mine and covers the same cumulative area as is covered by our two sliding-scale GSR royalties, GSR1 and GSR2.

(d) Net Value Royalty (NVR1). This is a fixed 1.25% NVR on production from the GAS Claims located on a portion of the Pipeline Mining Complex that excludes the Pipeline open pit. The Company owns 31.6% of the 1.25% NVR (or 0.39%) while our consolidated minority interest owns the remaining portion of the 1.25% NVR. This NVR1 royalty is calculated by deducting contract defined processing-related and associated capital costs, but not mining costs from the revenue received by the operator from the claims covered by the royalty.

(e) The Silver GSR. This is a 7.0% GSR royalty on all silver produced from any of the Reserve Claims or the GAS claims.

(f) The Other Products NSR. This is a 3.0% NSR royalty on all products, other than gold or silver, produced from any of the Reserve Claims or GAS claims, commencing July 1, 1999. This NSR is defined as the actual price received by Cortez for the sale of products other than gold and silver

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prior to delivery to any customer, refinery or upgrading facility and after deductions for any Mining Law reform costs, the costs of insuring, marketing, freight or transportation and, if applicable, refining and treatment costs, for such products. There is no current production attributed to this royalty interest.

The following shows the current sliding-scale GSR royalty rates under our royalty agreement with Cortez:

London PM Quarterly Average Price of Gold Per Ounce ($U.S.)			GSR1 Royalty Percentage	GSR2 Royalty Percentage
Below		$ 210.00	0.40%	0.72%
$210.00	-	$ 229.99	0.50%	0.90%
$230.00	-	$ 249.99	0.75%	1.35%
$250.00	-	$ 269.99	1.30%	2.34%
$270.00	-	$ 309.99	2.25%	4.05%
$310.00	-	$ 329.99	2.60%	4.68%
$330.00	-	$ 349.99	3.00%	5.40%
$350.00	-	$ 369.99	3.40%	6.12%
$370.00	-	$ 389.99	3.75%	6.75%
$390.00	-	$ 409.99	4.00%	7.20%
$410.00	-	$ 429.99	4.25%	7.65%
$430.00	-	$ 449.99	4.50%	8.10%
$450.00	-	$ 469.99	4.75%	8.55%
$470.00	-	and above	5.00%	9.00%

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Under certain circumstances we would be entitled to delayed production payments (i.e., payments not recoupable by Cortez) of $400,000 per year.

Barrick estimated that at a $475 gold price, proven and probable reserves related to our royalty interests at the Pipeline Mining Complex includes 82.65 million tons of ore, at an average grade of 0.028 ounces per ton, containing approximately 2.326 million ounces of gold as of December 31, 2006. In addition, Barrick has reported additional mineralized material at the Pipeline Mining Complex totaling 35.35 million tons of ore, at an average grade of 0.037 ounces of gold per ton.

The following illustration depicts the area subject to our royalty interests at the Pipeline Mining Complex:

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SJ Claims

We own a 0.9% NSR royalty on the SJ Claims that covers a portion of the Betze-Post mine, in Eureka County, Nevada. Betze-Post is an open pit mine operated by a subsidiary of Barrick, at its Goldstrike property. The SJ Claims and the Betze-Post open pit lie approximately 24 air miles northwest of Carlin, Nevada. The property is accessed by driving north from Carlin on State Highway 766 for 19 miles and then on an improved gravel road for two miles.

Barrick estimated that at a $475 gold price, proven and probable reserves related to our royalty interest at the SJ Claims include 60.55 million tons of ore, at an average grade of 0.132 ounces per ton, containing approximately 7.977 million ounces of gold as of December 31, 2006. Barrick does not provide us with information regarding additional mineralized material on the SJ Claims that is related to our royalty interest.

The following map depicts the area subject to our royalty interest at the SJ Claims:

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Leeville Project

We own a 1.8% carried working interest, equal to a 1.8% NSR royalty, which covers the majority of the Leeville Mining Complex (collectively Leeville South and Leeville North), in Eureka County, Nevada. The Leeville Mining Complex is approximately 19 air miles northwest of Carlin, Nevada. The property is accessed by driving north from Carlin on State Highway 766 for 19 miles and then on an improved gravel road for two miles. Leeville North is an underground mine currently under production ramp up by Newmont. Newmont has announced that it intends to be at full production at Leeville North by the end of calendar 2007. Currently, we derive royalty revenue from underground operations on a portion of the Leeville South and North mines, which are operated by a subsidiary of Newmont. Production from the Leeville South mine is expected to continue throughout calendar 2007.

As of December 31, 2006, Newmont estimated that at a $500 gold price, proven and probable reserves related to the Leeville South mine includes 29,000 tons of ore, at an average grade of 0.310 ounces per ton, containing 9,000 ounces of gold. In addition, Newmont has reported additional mineralized material at Leeville South totaling 21,000 tons of ore, at an average grade of 0.300 ounces of gold per ton.

At the Leeville North mine, proven and probable reserves include 5.15 million tons of ore, at an average grade of 0.454 ounces per ton, containing 2.339 million ounces of gold as of December 31, 2006. In addition, Newmont has reported additional mineralized material totaling 1.44 million tons of ore, at an average grade of 0.373 ounces of gold per ton, at Leeville North.

The following map depicts the area subject to our royalty interest at the Leeville Project:

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Troy Mine

In the second quarter of fiscal year 2005 and in connection with financing provided by the Company to Revett, we acquired two royalty interests in the Troy underground silver and copper mine, operated by a subsidiary of Revett, located in Lincoln County, Montana. The Troy mine is approximately 15 miles south of the town of Troy, Montana, and access is via a paved road connected to State Highway 56. Please see Note 3 to the consolidated financial statements for further information in connection with the financing provided by the Company.

The first royalty interest we acquired in the Troy mine is a production payment equivalent to a 7.0% GSR royalty from all metals and products produced and sold from the Troy mine. The 7.0% GSR royalty will extend until either cumulative production of approximately 9.9 million ounces of silver and 84.7 million pounds of copper, or we receive $10.5 million in cumulative payments, whichever occurs first. We have received cumulative payments with the GSR royalty totaling $5.5 million through June 30, 2007. The second royalty interest we acquired in the Troy Mine is a perpetual GSR royalty, which begins at 6.1% on any production in excess of 11.0 million ounces of silver and 94.1 million pounds of copper, and steps down to a perpetual 2.0% GSR royalty after cumulative production has exceeded 12.7 million ounces of silver and 108.2 million pounds of copper.

As of December 31, 2006, Revett estimated that at an $11.00 per ounce silver price, proven and probable reserves related to the Troy mine include 12.05 million tons of ore, at an average grade of 1.14 ounces per ton, containing 13.768 million ounces of silver. In addition, Revett has reported additional mineralized material at the Troy mine totaling 45.22 million tons of ore, at an average grade of 1.36 ounces per ton of silver.

As of December 31, 2006, Revett estimated that at a $2.00 per pound copper price, proven and probable reserves related to the Troy mine includes 12.19 million tons of ore, at an average grade of 0.54 percent, containing 131 million pounds of copper. In addition, Revett has reported additional mineralized copper material at the Troy mine totaling 45.22 million tons of ore, at an average grade of 0.64 percent of copper.

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All of the ground within the area of interest , as labeled in the following map, depicts the area subject to our royalty interests at the Troy mine:

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Bald Mountain Mine

We own a 1.75% to 3.5% sliding-scale NSR royalty on a portion of the Bald Mountain mine. The Bald Mountain mine is an open pit, heap leach mine operated by a subsidiary of Barrick. The Bald Mountain mine is located in White Pine County, approximately 65 miles south of Elko, Nevada. The Bald Mountain mine is approximately midway between Elko and Ely, Nevada. From Elko, the mine is reached by driving on paved State Highway 46 south for approximately 45 miles, then for 30 miles on an improved gravel road to the mine site. From Ely, the drive is 30 miles west on paved United States Highway 50, then 55 miles north on the improved gravel Ruby Marshes Road.

As of December 31, 2006, Barrick informed us that the portion of the mine covered by our royalty interest contained proven and probable reserves of 51.49 million tons of ore, at an average grade of 0.039 ounces per ton, containing approximately 2.024 million ounces of gold. These reserves are based on a gold price of $475 per ounce. In addition, Barrick has reported that the property covered by our royalty interest contains an additional 7.64 million tons of additional mineralized material, at an average grade of 0.036 ounces per ton of gold.

The following map depicts the area subject to our royalty interests at the Bald Mountain mine:

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Robinson Mine

We own a 3.0% NSR royalty on all mineral production from the Robinson open pit mine operated by a subsidiary of Quadra Mining Ltd. The Robinson mine produces two flotation concentrates for sale to third party smelters. One concentrate contains copper, gold and silver. The second is a molybdenum concentrate. Access to the property is via Nevada state highway 50, 6 1/2 miles west of Ely, Nevada, in White Pine County.

As of December 31, 2006, Quadra informed us that the copper and gold reserves were 134.92 million tons, at an average grade of 0.008 ounces per ton of gold, containing 1.034 million ounces of gold and a copper grade of 0.69% equating to 1,863 million pounds of copper. The reserves were calculated at $500 per ounce for gold and $1.15 per pound of copper. Silver and molybdenum reserves were not reported but are produced and sold as a byproduct.

All of the ground within the property boundary , as labeled in the following map, is subject to our royalty interest at the Robinson mine: